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United Nations

United Nations Entity for Gender Equality and the Empowerment of Women

Financial report and audited financial statements

for the year ended 31 December 2012

and

Report of the Board of Auditors

General Assembly
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Letters of transmittal

30 April 2013

Pursuant to financial rule 1202 of the United Nations Entity for Gender Equality and the Empowerment of Women, enclosed are the financial statements for the year ended 31 December 2012. These statements have been prepared and signed by the Director of Management and Administration.

Copies of the financial statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

(*Signed*) Lakshmi **Puri**
Acting Head

The Chair of the Board of Auditors
United Nations
New York

30 June 2013

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Entity for Gender Equality and the Empowerment of Women for the year ended 31 December 2012.

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York

Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) for the year ended 31 December 2012, which comprise the statement of financial position, the statement of financial performance, the statement of cash flow, the statement of comparison of budget and actual amounts, the statement of changes in net assets and the supporting statements and explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) and for such internal control as management deems necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UN-Women as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with IPSAS.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of UN-Women that have come to our notice, or that we have tested as part of our audit, have in all significant respects been in accordance with the financial regulations and rules of UN-Women and legislative authority.

In accordance with article VII of the Financial Regulations of the United Nations, we have also issued a long-form report on our audit of UN-Women.

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the Board of Auditors

(*Signed*) Ludovick S. L. **Utouh**
Controller and Auditor-General of the United Republic of Tanzania
(Lead Auditor)

(*Signed*) **Liu** Jiayi
Auditor-General of China

30 June 2013

Chapter II
Long-form report of the Board of Auditors

Summary

By its resolution 64/289, the General Assembly decided to establish the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) by consolidating the existing mandates and functions of the Office of the Special Adviser on Gender Issues and Advancement of Women and the Division for the Advancement of Women of the Secretariat, as well as those of the United Nations Development Fund for Women (UNIFEM) and the International Research and Training Institute for the Advancement of Women (INSTRAW), to function as a secretariat and also to carry out operational activities at the country level. The Board notes that UN-Women spent $236 million, against total revenue of $220 million, for the year ended 31 December 2012.

The Board of Auditors has audited the financial statements and reviewed the operations of UN-Women for the year ended 31 December 2012. The audit was carried out through field visits to the subregional offices of the entity in Kigali, Almaty, Bangkok and Mexico City, as well as a review of the financial transactions and operations at its headquarters in New York.

(a) Audit opinion

The Board issued an unqualified audit opinion on the financial statements of UN-Women for the year ended 31 December 2012. The Board's opinion is reflected in chapter I of the present report.

(b) Overall conclusion

UN-Women adopted the International Public Sector Accounting Standards (IPSAS) in 2012, in place of the United Nations Systems Accounting Standards (UNSAS). The adoption of IPSAS brought about significant changes in the accounting policies of UN-Women, including the preparation of more elaborate and informative financial statements. The adoption of the new accounting policies has resulted in significant changes to the assets and liabilities recognition, with a net increase in assets of $12.09 million as at 1 January 2012. The Board's analysis of the financial position of UN-Women as at 31 December 2012 revealed good financial health.

The Board also noted the successful first-time implementation of IPSAS in 2012 as a major achievement. The Board, however, noted a number of deficiencies, relating to financial statement presentation, recognition and valuation of assets and liabilities, controls and policy issues, that required adjustment before the issuance of the present report. UN-Women now faces the challenge of realizing the benefits of IPSAS by improving systems and the operation of controls, using the new accounting data to improve decision-making and enhancing financial management across the organization.

(c) Follow-up of previous recommendations

Of the 28 recommendations made in the biennium 2010-2011, 23 (82 per cent) were implemented and 5 (18 per cent) were in the process of being implemented. The Board notes that the five under implementation will be addressed through training in

IPSAS implementation across the entity and the related change management process. The Board considers that the Administration has taken positive action to resolve most of the fundamental concerns expressed in its previous report.

(d) Financial performance overview

For the period under review, total revenue was $220.1 million and total expenses amounted to $235.9 million, resulting in a deficit of $15.8 million. As at 31 December 2012, UN-Women had total assets of $389.9 million and total liabilities of $114 million. Of its total assets, $228.5 million represented balances in cash and cash equivalent and investments. The net current assets were $217.5 million, resulting from current assets of $290.7 million and current liabilities of $73.2 million. The significant excess of current assets over current liabilities demonstrated good short-term financial strength.

(e) Implementation of the International Public Sector Accounting Standards

The audited financial statements for the year ended 31 December 2012 were the first financial statements prepared by UN-Women in accordance with IPSAS.

The Board's review of IPSAS opening balances submitted for audit identified items that were not properly presented, including incorrect recognition of donor pledges, fully depreciated assets which were still in use and requiring reassessment of their useful lives, lack of an aged breakdown of actuarial valuations for employee benefit liabilities that would enable categorization between current and non-current liabilities, and foreign currency translation gains for 2011 recognized in 2012. The preparation of IPSAS opening balances was also substantially delayed because UN-Women was conducting major general ledger-balance sheet reconciliations in relation to advances, other assets, accounts payables and other liabilities from 2004 to 2012.

All financial statement issues were subsequently resolved by UN-Women and appropriate adjustments made, but they revealed a need for strengthened financial statement preparation and review procedures going forward.

The Board also notes that UN-Women indicated in its accounting policy that International Public Sector Accounting Standard 12 (Inventories) is not applicable to its circumstances. Although the Board did not find items of inventory during its field work in the country offices visited, it considers that UN-Women runs a risk of not being able to account for inventory if it holds such items in future. The Board recommended that UN-Women revisit the requirements of Standard 12 as a whole and consider the need to develop a policy on inventory.

(f) Key findings

Financial management

Inadequate investment management

UN-Women outsourced its treasury services to the United Nations Development Programme (UNDP) through a service-level agreement. The agreement requires UN-Women to submit cash forecasts to UNDP for planning future cash requirements during the financial year.

Review of compliance with the service agreement noted that UN-Women does not submit cash forecasts to UNDP to indicate its cash requirements. In addition, UN-Women is not represented in the UNDP Investment Committee and therefore has no input to investment decisions that could affect its financial performance and accountabilities.

The Board considers that UN-Women is placing too much reliance on UNDP to manage its treasury function without considering this as an accountability issue requiring UN-Women to take greater responsibility for its own financial performance.

Governance

Absence of risk management framework and policy and risk register

The Board acknowledges that UN-Women is committed to establishing an organization-wide risk management approach, but at the time of reporting UN-Women had no systematic approach to risk management at the subregional office or headquarters level. UN-Women does not maintain a risk register, and as a result the strategic and operational risks affecting the organization as well as appropriate mitigations are not readily identifiable.

Asset management

Inadequate internal controls over property, plant and equipment

The Board notes the progress made by UN-Women to establish and maintain asset registers, but identified weaknesses, for example, recording in the books of account of assets acquired in prior years without their respective accumulated depreciation; double recording of assets in the system; double depreciation of some assets; and some assets not being included in the physical asset verification report. UN-Women needs to improve its internal review and checking processes to enhance control over its assets and address the weaknesses identified.

Programme, project and trust fund management

Inadequate management of projects

The Board noted significant delays in the financial closure of projects that were operationally closed. Eleven projects took between 12 and 34 months to be financially closed. In addition, project status reports at the headquarters and the subregional offices on programme, project and trust fund management showed low levels of budget utilization as at November 2012 and conflicting reporting of project status between the entity's headquarters and its field offices.

Procurement and contract management

The Board noted inadequate involvement of the headquarters procurement unit in the acquisition process across the entire organization. While recognizing the benefit of delegated authority and operational freedoms, the Board is concerned that the procurement role, which is a specialized activity, has been decentralized to the regional and country offices to the extent of the headquarters procurement unit being unable to monitor compliance with rules and regulations.

Information and communications technology

Delays in deactivating dormant user accounts in the enterprise resource planning system

The information technology systems of UN-Women are exposed to increased risk of unauthorized transactions (including fraud) because of delays in deactivating dormant user accounts. The Board found 50 dormant accounts that had not been deactivated for more than two years; half the dormant accounts belonged to staff who were no longer in the list of current employees. Delays in closing dormant accounts also increase the risk of loss of valuable and confidential data.

Internal audit function

Inadequate capacity of internal audit function

The Office of Internal Audit has not been achieving its annual target for audits and reports owing to a lack of sufficient financial and human resources within the unit.

(g) Key recommendations

The Board has made detailed recommendations in the main report. The main recommendations are that UN-Women:

(a) Improve the service-level agreement to accommodate the need for UN-Women to monitor the entire treasury services entrusted to UNDP as part of accountability and capacity-building;

(b) Develop risk registers at operational levels and a consolidated register at strategic level. The registers should include categories and the nature of threats that could adversely affect delivery of its mandate and include possible mitigation strategies;

(c) Design, implement and document additional procedures that will help to ensure that the recording of property, plant and equipment in the asset management system is complete and accurate;

(d) Streamline the system of project monitoring and evaluation to ensure that milestones set in the strategic plans are achieved as intended;

(e) Review its procurement planning procedures and establish delegations of authority;

(f) Collaborate with UNDP to improve the communication procedures between the human resources office and the Argus system focal points to ensure that user accounts for the employees leaving the entity are disabled promptly;

(g) Strengthen the internal audit function resources for effective delivery of its mandate.

A. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) for the year ended 31 December 2012 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations (ST/SGB/2003/7 and Amend.1), as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UN-Women as at 31 December 2012 and the results of its operations and cash flows for the year then ended, in accordance with IPSAS. This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the financial regulations and rules of UN-Women. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews of UN-Women operations under financial regulation 7.5 of the United Nations and financial rule 1202 of UN-Women. The General Assembly also requires the Board to follow up on previous recommendations and to report accordingly.

4. The Board liaises with the internal audit unit in the planning of its audits in order to avoid duplication of effort and to determine the extent of reliance that can be placed on the latter's work.

5. The present report covers matters that the Board considers should be drawn to the attention of the General Assembly. The Board's report was discussed with UN-Women and management's views have been appropriately reflected.

B. Findings and recommendations

1. Follow-up of the previous recommendations

6. The Board noted that, of the 28 recommendations made for the biennium 2010-2011, 23 (82 per cent) had been implemented and 5 (18 per cent) were in the process of being implemented. Details of the implementation status of these recommendations are shown in the annex to the present report. The implementation status indicates adequate management follow-up to address the outstanding audit recommendations.

7. The Board noted that some of the recommendations under implementation would be addressed through ongoing training as part of the IPSAS roll-out, the implementation of the entity's regional architecture (the current restructuring of

administrative locations is geared towards decentralization of authority to the field offices) and the related change management process.

2. Financial performance overview

Operating results

8. The statement of financial performance shows that, for the period under review, total revenue was $220.1 million and total expenses amounted to $235.9 million. This resulted in a deficit of $15.8 million for 2012. This deficit has been funded from reserves accumulated in the prior year.

Financial position

9. The Board noted that full prior-year comparative information was not provided for 2012 in accordance with the IPSAS transitional provisions for the first year of implementation. However, where appropriate, IPSAS opening balances as at 1 January 2012 were used as comparable information. The Board also noted that, as at 31 December 2012, UN-Women had net current assets of $217.5 million resulting from current assets of $290.7 million and current liabilities of $73.2 million. UN-Women thus has good short-term financial strength, with current assets exceeding current liabilities, and sufficient cash to ensure a good liquidity position (see table II.1). Total assets were $389.9 million and total liabilities $114 million; of the total assets, some $228.5 million represented balances in cash and cash equivalents and investments.

Table II.1
Ratio analysis of UN-Women financial position

	Ratio at 31 December 2012	*Ratio at 1 January 2012*
Current assets to current liabilities	3.97	4.63
Total assets to total liabilities	3.42	5.12
Cash to: current liabilities	1.42	0.52

Source: UN-Women financial statements for the year ended 31 December 2012.

10. Current assets are approximately four times greater than current liabilities, and total assets are around five times greater than total liabilities, which means that UN-Women has the ability to meet its short-term obligations. The ratio analysis also shows that UN-Women holds adequate cash reserves to meet current (short-term) maturing liabilities.

3. Implementation of the International Public Sector Accounting Standards

11. The audited financial statements for the year ended 31 December 2012 were the first financial statements of UN-Women prepared in accordance with IPSAS. The Board acknowledges that successful implementation of the IPSAS accounting framework was a major achievement confirming strong commitment by management, especially given the relative newness of the organization and the state of readiness previously reported by the Board. The Board did note, however, some weaknesses which require further improvement over the coming year.

Incorrect recognition of donor pledges in the financial statements

12. UN-Women's revenue and accounts receivable policy recognizes revenue when confirmed in writing by donors, unless any stipulations defer the recognition. In certain agreements a schedule of payments is included to indicate when funds are to be transferred to UN-Women. The schedule corresponds to the period for which the funds are intended to be utilized.

13. The Board noted that multi-year voluntary contributions for core resources amounting to $290,200, which were received in 2011 but related to financial years 2012 and 2013, were recognized as revenue for the year ended 31 December 2011 contrary to the revenue recognition policy. This led to an overstatement of the accumulated surplus as at 1 January 2012 by $290,200 and an understatement of deferred revenue for the same amount. UN-Women agreed to adjust the IPSAS opening balances to correct the error.

Property, plant and equipment

14. As at 1 January 2012, UN-Women had property, plant and equipment with a historical cost of $7.5 million and accumulated depreciation of $3.7 million, leaving a net book value of $3.8 million. The property, plant and equipment comprised 2,095 units, of which 651 units (31 per cent) were fully depreciated. The verification of property, plant and equipment conducted by the Board during its visit to the subregional offices in Almaty, Mexico City and Bangkok found that some of the assets recorded at zero value were in good condition and still in use.

15. The Board noted that UN-Women did not review the residual value and the useful life of assets at least annually at each reporting date as required under IPSAS. Accordingly, the new useful lives are based on the estimation of the assets' useful lives, which was a matter of judgement based on the experience of other entities with similar assets. The useful lives of UN-Women's assets were retrospectively adjusted.

16. **The Board recommends that UN-Women regularly review its depreciation rates and useful lives to avoid having a large number of assets fully depreciated but still in use.**

17. UN-Women did not agree with the Board's observation and recommendation and stated that "paragraph 67 of International Public Sector Accounting Standard 17 does not state that the review must be conducted on 31 December (being the reporting date); rather it should be completed for the annual reporting date. As the year-end closure date for the field office transactions is 31 January 2013, UN-Women could only practically do the review in February 2013. Furthermore, the review in February has no effect on the useful life estimation as it was done for the year ended 31 December 2012 and the retrospective adjustments will apply whether it is performed on 31 December 2012 or in February 2013". The Board remains of the view that the IPSAS requirement of "reviewing the residual value and the useful life of assets at least at each annual reporting date" means within the financial year and that this could be accomplished within the timeline for the IPSAS implementation preparations.

End-of-service liabilities, including after-service health insurance

18. In its resolutions 60/255, 61/264 and 64/241, the General Assembly requested the Secretary-General to accrue, disclose and continue to validate the accrued liabilities for after-service health insurance with figures audited by the Board.

19. The financial statements of UN-Women for the period under review reflected end-of-service and post-retirement liabilities of $47.307 million. Of that amount, $35.320 million represented after-service health insurance, $6.237 million represented repatriation benefits. $4.941 million was related to unused vacation leave credits and $0.809 million represented home leave allowance.

20. As of 31 December 2012, UN-Women had funded $24.24 million (68.80 per cent) of its after-service health insurance liability of $35.32 million and had set aside resources to fund the employee benefits liability over a period of time.

21. The Board notes that the unfunded after-service health insurance liability has increased from 18 per cent to 31 per cent over the past two years (see table II.2).

Table II.2
Trend analysis of after-service health insurance liability
(Millions of United States dollars)

	Liability	*Amount funded*	*Unfunded portion*	*Per cent funded*	*Per cent unfunded*
2010-2011	27.36	22.30	5.06	82	18
2012	35.32	24.24	11.08	69	31

Source: Financial statements for the year ended 31 December 2012.

22. In its previous reports, the Board recommended that United Nation entities review the funding mechanism for end-of-service and post-retirement benefit liabilities. The Board was of the view that the recording of end-of-service liabilities in the accounts called for a comprehensive and effective funding strategy (see A/63/169, para. 32). The Board is concerned that unfunded liability increases the risk that in future UN-Women might not be in a position to fully meet its obligations with regard to end-of-service and post-retirement liabilities as and when the liabilities become due.

23. UN-Women acknowledged an increase in the level of end-of-service liabilities over the two years and consequently an increased funding gap. UN-Women has a funding mechanism in place, including charging 5 per cent and 2 per cent on salary costs to finance after-service health insurance and repatriations, respectively. Moreover, a review of the funding strategy will be done in 2013 to ensure that a comprehensive strategy takes account of the increase in liabilities.

24. **The management agreed with the Board's recommendation that it conduct a review in 2013 of the funding of after-service health insurance and repatriation benefits.**

Effect of changes in foreign exchange rates on the accumulated surplus

25. International Public Sector Accounting Standard 4 (The effects of changes in foreign exchange rates) requires that exchange differences arising (a) on the settlement of monetary items, or (b) on translating monetary items at rates different

from those at which they were translated on initial recognition during the period or in previous financial statements, be recognized in surplus or deficit in the period in which they arise.

26. The Board noted that the statement of financial performance for the IPSAS dry-run financial statements as at 30 June 2012 included a currency exchange translation gain of $22,458 as a result of the past year's transactions involving translation of 6 million Danish kroner into United States dollars.

27. The Board considered that, as required by IPSAS, the exchange gain should have led to an adjustment in the accumulated surplus for the period ended 31 December 2011 and subsequently in the opening balance as at 1 January 2012. UN-Women accordingly adjusted the balance as at 1 January 2012 for the exchange gain, which was recognized in 2012 rather than 2011.

Inventory

28. The Board noted that UN-Women states in its accounting policy that International Public Sector Accounting Standard 12 (Inventories) is not applicable. Paragraph 12 of Standard 12 lists a number of items that should be recognized as inventory. These include educational/training materials held for distribution for no or nominal charge and consumable stores, which are characteristic of the operations of UN-Women.

29. UN-Women informed the Board that it had reviewed Standard 12 and determined that it had no inventory. No-charge publication materials and campaign brochures prepared by UN-Women were for advertising and promotional information purposes only. Those items did not have longevity and were used within a 12-month period. Accordingly, the cost of publication material was recognized as an expense when incurred. The Board was further informed that no bulk procurements were made in respect of consumables and educational materials and therefore the organization had no inventories. Since UN-Women is a going concern, the Board cannot rule out the possibility of its acquiring items falling under the category of inventory. The Board also considers that policies on inventory need to be forward-looking as the entity may in future hold inventory.

30. **The Board recommends that UN-Women revisit the requirements of International Public Sector Accounting Standard 12 as a whole in relation to items kept at all offices to ensure full compliance with IPSAS.**

4. Financial management

Preparation of financial statements

31. The financial regulations and rules of UN-Women assign to the Executive Director responsibility for the preparation of accurate financial statements in accordance with the accounting framework. UN-Women needs appropriate procedures to enable it to discharge its responsibility for preparing its financial statements before submitting them to the Board for audit. Such procedures generally include the preparation of supporting schedules and analysis to allow for management review and validation that the financial statements fairly represent the accounting records and were compiled in accordance with the stated accounting policies.

32. While UN-Women had adequate procedures to support the preparation of its financial statements, the Board identified areas for improvement. While the areas for improvement, individually or in aggregate, are not material and do not affect the Board's opinion this year, they could affect the accurate presentation of future financial statements if not addressed.

Inadequate investment management

33. UN-Women outsourced its treasury services to UNDP through a service-level agreement. The agreement requires UN-Women to submit cash forecasts to UNDP for planning future cash requirements during the financial year.

34. A review of compliance with the agreement found that UN-Women do not submit cash forecasts to UNDP to indicate its cash requirements. Also, there was no evidence of directives issued by UN-Women to indicate its preferential investment portfolios. The lack of input by UN-Women to investment decisions could affect its financial performance and accountability.

35. The Board is of the view that UN-Women is placing too much reliance on UNDP to manage its treasury function and that it needs to take more active responsibility for its own financial performance.

36. **UN-Women agreed with the Board's recommendation that it (a) improve the service-level agreement to accommodate the need for it to monitor the entire treasury services entrusted to UNDP; and (b) abide by the provision of the agreement requiring it to give annual cash flow forecasts to UNDP to avoid any possibility of ad hoc cash requests that may necessitate interruption of investments owing to fund shortages.**

37. UN-Women informed the Board that it had outsourced its investment decisions to UNDP through the service-level agreement just as any organization might outsource the management of such decisions to a financial adviser and that it had agreed to its investments being managed according to the UNDP investment guidelines.

38. UN-Women also stated that it had agreed that UNDP hold adequate cash based on historical patterns. Cash flows would be provided in 2013, but only in the form of estimates as the amount and timing of receipt of core and non-core funds from donors could not be accurately predicted. UN-Women also informed the Board that it would continue to review its agreement with UNDP on an annual basis.

5. Governance

Absence of risk management framework and policy and risk register

39. The Board noted from its review of the control environment and approach to risk management at subregional offices during 2012 that the offices did not maintain risk registers. The Board also noted that UN-Women did not have a permanent, enterprise-wide risk register showing details of exposure to threats and its approach to risk assessment and management. As a result, the entity lacks a deep knowledge of the risks it faces and a strategy for managing them in a systematic manner.

40. UN-Women informed the Board that, in the second quarter of 2013, it had started developing an enterprise risk management framework. The target completion date is the end of 2013. This exercise will focus on assessing and managing risks at

headquarters and in field offices. It will also provide an overall assessment of the likelihood and impact of risks should they occur owing to events or actions that might adversely affect the organization's ability to successfully achieve its objectives and execute its strategies. This will take into account the representations made by the different offices concerning actions they have taken to prevent or mitigate the identified risks.

41. UN-Women agreed with the Board's recommendation that it develop risk registers at operational levels and a consolidated register at strategic level. The registers should include categories and the nature of threats that could adversely affect the delivery of its mandate and include possible mitigation strategies.

Late approval of the strategic note and annual workplans for 2012

42. Strategic planning is an entity's process of defining its overall objectives and allocating resources. The strategic plan enables UN-Women to implement its mandate and identify its aims and objectives for a specific period; it also allows field offices to align their objectives to the global strategy of the entity. The strategic plan is correlated to an annual workplan for each field office which facilitates local planning and alignment of activities.

43. Projects scheduled for delivery in a particular financial year should not start before the Executive Director approves the strategic note and annual workplans for that year. The Board noted that during 2012 UN-Women headquarters delayed the approval of the strategic note and annual workplans and related core allocations submitted by country and regional offices until two to three months after the beginning of the financial year. Some country offices decided to proceed with project implementation prior to approval of the plans. The delays were partly caused by the lack of a timetable and designated staff for approval of the strategic note and annual workplans, which should have been aligned with the entity's project performance cycle.

44. The Board considers that delays in approving the strategic note and annual workplans may affect the smooth operation of activities and delivery of the intended results in the subregional offices and across the entire organization, since until approval it is impossible to know whether the plans will be accepted as proposed or subject to amendments.

45. UN-Women stated that the majority of the 57 annual workplans had been approved before the end of January 2012, but acknowledged that a few had taken slightly longer to approve because its quality assurance processes required significant changes to be made to those plans to meet new organization-wide standards. UN-Women informed the Board that it had already approved core resources for all 2013 annual workplan activities in December 2012.

46. With regard to the ability of field offices to continue their work while awaiting approval, the annual workplans are approved for two years at a time and rely on non-core funding for a significant portion of their work. Since non-core funding is multi-year, these offices use this source of funds to continue their work during the short period in which they are waiting for the approval of their annual workplan, in addition to carry-over core funds from the previous year.

47. **UN-Women agreed with the Board's recommendation that it (a) assign to a selected team the responsibility of approving annual plans; and (b) establish a**

clear timetable with target dates for the preparation and approval of the strategic note and annual workplans before the beginning of the performance cycle.

48. UN-Women informed the Board that it had already established a dedicated team and a peer review group to review and recommend approval of the annual workplans, as well as a timetable for approving the 2013 plans.

6. Asset management

Management of property, plant and equipment

49. The value of property, plant and equipment as at 31 December 2012 was $5.5 million. The assets mainly comprised buildings, motor vehicles, equipment, furniture and fixtures, heavy machinery and security equipment. The main means of confirming the existence and security of property, plant and equipment is asset certification and physical asset counts undertaken twice per year.

50. The Board in its previous report emphasized the need to improve asset management controls (see A/67/5/Add.13, chap. II, paras. 128-131). While recognizing the efforts made by UN-Women headquarters during the year to improve the accuracy of its asset register, the Board noted the following weaknesses in relation to assets management:

(a) Forty-five assets acquired in prior years were recognized in the books of account without their respective accumulated depreciation;

(b) Ten assets were recorded twice in the system (Atlas asset management module) with different asset identification numbers;

(c) Two assets were depreciated in two business units at UN-Women headquarters (UNIFEM); the same assets were also depreciated at the Brazil country office;

(d) Twelve assets were not included in the physical asset verification report as at 30 November 2012.

51. UN-Women informed the Board that it had already taken action to address these weaknesses by ensuring that controls over acquisition, valuation, recording, accounting and disposal of assets were in place and the related records maintained.

52. Although the identified weaknesses were rectified by UN-Women and necessary adjustments made in the financial statements, the Board will assess this area again in 2013, including a rigorous review of the lessons to be drawn from the newly implemented asset management controls.

53. **The Board recommends that UN-Women design, implement and document additional procedures to improve the completeness and accuracy of property, plant and equipment recording in the asset management system.**

Inadequate procedures for asset management at country offices

54. The Board performed a review of procedures for asset management at country offices and noted inconsistencies, including non-compliance with the UN-Women fixed asset guidelines issued in June 2011, which require all external transfers and donations to third parties to be supported by a signed transfer of title; incomplete

recording of assets in the register and lack of documentary evidence to support postings; and some recording of assets without indication of their fair value as required by IPSAS. Also in the East and South-East Asia Office the Board was unable to obtain evidence of a physical count (certification) of property, plant and equipment and maintenance of signed asset reports contrary to the requirements of the entity's accounting policy manual.

55. UN-Women attributed the deficiencies to its being a new entity and recording its assets under IPSAS for the first time. It needed more time to properly align its legacy assets. The Board considers that the controls established for recording, safekeeping, maintenance and disposal of property, plant and equipment at UN-Women need to be enhanced to achieve improved compliance with the extant rules and procedures.

56. **UN-Women agreed with the Board's recommendation that it (a) improve its procedures for the management of assets to ensure that all necessary records from acquisition, valuation, recording, accounting and disposal are adequately maintained; and (b) streamline its asset reporting procedures to ensure that the headquarters has adequate information and an appropriate mechanism for monitoring compliance with the property, plant and equipment policies and the requirements of the financial rules and regulations.**

57. UN-Women informed the Board that it had already taken action, including segregation of duties relating to procurement and disposal of assets, and that it now performed asset verification at business-unit level twice a year. UN-Women also stated that it had conducted web-based training for field staff to provide guidance on authorization of asset-related documents, recording, controls and United Nations policy. A detailed asset management procedure operating manual had been established to guide the business units on asset management processes, documentation and United Nations policy.

7. Programme, project and trust fund management

Inadequate management of projects

58. According to the UNIFEM Programmes and Operations Reference Manual, a project is operationally closed when its activities have ceased and the outputs have been achieved. A project is financially closed when all financial transactions have been reported and all accounts are closed. The UN-Women financial rules and regulations require that a project be financially closed as soon as possible, and no later than 12 months after it is operationally closed.

59. The Board noted the following deficiencies from its review of 68 projects in the subregional office for Mexico, Central America, Cuba and the Dominican Republic and five projects in the regional office for Central Africa:

(a) Eleven projects took more than 12 and up to 34 months to proceed from operationally closed to financially closed status, and they had fund balances amounting to $307,000 that had not yet been refunded to donors or credited to UN-Women under "Miscellaneous revenue" in accordance with the financial rules and regulations. In addition, seven still appeared in the UN-Women headquarters project list as ongoing;

(b) As at 22 November 2012, none of the 68 projects had been subjected to independent audit, even though 11 had been operationally closed. Failure to subject projects to independent audit is contrary to the entity's financial regulations, to article XI of the project cooperation agreement between UN-Women and implementing partners and to UN-Women's own guidance to implementing partners of 19 April 2011;

(c) At the regional office for Central Africa, the Board noted project cooperation agreements with implementing partners that required the latter to provide UN-Women with annual progress reports on the activities, achievements and the results of the projects. However, article 4.4.4 of the UNIFEM Programmes and Operations Reference Manual requires implementing partners to report to UN-Women periodically (quarterly at a minimum). Therefore, the provisions of the project cooperation agreements contradict those of the Programmes and Operations Reference Manual.

60. **UN-Women agreed with the Board's recommendation that it (a) strengthen the system of project monitoring and evaluation to ensure that the milestones set in its strategic plans are achieved; and (b) ensure that all project contracts are aligned with the provisions of the financial rules and regulations, manuals and policies.**

61. UN-Women stated that it had established a corporate monitoring mechanism to track the timely implementation of programmes and operations across all offices. This was led and guided by headquarters bureaux and divisions and supported by six regional offices, three of which had been established in 2012 as part of the new regional architecture. It also clarified that the Programmes and Operations Reference Manual of the former UNIFEM had been superseded by the UN-Women Programme and Operations Manual.

62. UN-Women stated that it was in the process of developing a management information "dashboard" with detailed programme monitoring that would cover a range of areas, including resource mobilization, recruitment, evaluation, donor reporting and programme delivery. It was expected that the dashboard would become active in the second quarter of 2013. Moreover, UN-Women had already prioritized financial closure of legacy projects that were operationally closed. The new guidelines on project closure had been issued and the financial closure of operationally closed legacy projects was expected to be completed during the fourth quarter of 2013.

Non-optimal use of budgeted funds

63. The Board's review of the project delivery report as at November 2012 noted that the budget performance of the 639 projects planned for the year under review ranged from zero to 49 per cent of allocated funds, compared to the targeted delivery rate of 80 per cent.

64. Slow delivery of programmes and projects was noted in all offices visited, namely the subregional office for Mexico, Central America, Cuba and the Dominican Republic, the subregional office for Eastern Europe and Central Asia, the regional office for Central Africa, the regional office for East and South-East Asia and the headquarters.

65. The Board is aware of the initiatives undertaken by UN-Women to ensure organizational efficiency and effectiveness in optimizing programme delivery and administrative arrangements.

66. However, as the project delivery targets had not been achieved at the time of the Board's review, towards the end of the fourth quarter of 2012, the Board considered it unlikely that the targets could be met.

67. **The Board recommends that UN-Women ensure delivery rates for its projects are as stipulated in the 2011-2013 strategic plan.**

8. Human resources and payroll management

68. In its review of human resources management at the UN-Women field offices visited in 2012, the Board noted deficiencies, including service contract holders performing core functions such as procurement, finance, human resource management and administration. The Board noted long-vacant posts for key personnel, namely programme adviser, operations manager, national programme coordinator and national programme specialist. The Board is of the view that inadequate deployment of key staff in the offices away from headquarters potentially affects the delivery of the mandates.

69. The Board also noted late submission of travel claims, ranging from 68 to 312 days after official travel, involving 135 staff members and contractors who did not submit travel claims in timely fashion, contrary to the requirement of the official business travel user guide that submission be within two weeks of return from official travel. The late submission of claim forms might lead to underreporting of expenses in the financial statements.

70. **UN-Women agreed with the Board's recommendation that it (a) ensure that the positions held by service contract holders are filled on a timely basis by personnel on staff contracts; (b) assess the current status of staffing at all levels and the impact on the performance of programmes and find a means of creating a database of prospective applicants who can be recruited to fill vacant posts in a timely manner; and (c) institute a follow-up process for officers returning from official travel so that they submit travel claim forms within the specified time.**

71. UN-Women acknowledges the challenge in recruiting for local positions, particularly for technical posts requiring specific expertise possessed by few applicants. However, instructions will be sent to the respective offices to stress the need for adherence to the established guidelines and policies. The human resources office is also exploring the possibility of establishing a roster of qualified professionals whose skills match the requirements of key UN-Women positions. Moreover, the Board was informed that, as at 19 February 2013, the Atlas travel approval functions had been decentralized to the different sections and divisions within UN-Women. This will place responsibility on sections and divisions for reminding staff of the need to submit travel claims in a timely manner.

9. Procurement and contract management

72. The Board noted the following weaknesses during its review of procurement and contract management at UN-Women headquarters and the regional offices visited in 2012:

(a) *Inadequate involvement of the headquarters procurement unit in the procurement process*. Paragraph 4.1 (j) of the UNDP Programme and Operations Policies and Procedures (also used by UN-Women) states that procurement is a strategic and complex administrative task that requires expertise at many levels. Low levels of competency increase the exposure to risks, especially supplier fraud. The Board considers that UN-Women procurement is not controlled centrally, as the headquarters procurement section does not participate in any procurement process for goods and services acquired by other units. The Board is concerned that UN-Women has decentralized its procurement role and supervision of the procurement unit to its field offices to the extent of being unable to manage and consolidate procurement activities and to ensure compliance with the rules and regulations. It is also the Board's view that to optimize resources allocated for procurement, staff members with the best expertise in procurement should be handling the entity's procurement activities;

(b) *Lack of adequate procurement and contract management*. The Board in its previous report underscored the need for all country offices' procurement plans to be consolidated with those of the headquarters for the purpose of ensuring appropriate budgeting, identifying common suppliers to achieve scale economies and improving the monitoring of implementation progress. The Board noted that, during the period from January to November 2012, 1,530 purchase orders with a total value of $21 million had been processed by country offices, but in its review of the procurement report submitted to the Acquisition Management Review Committee the Board found that 10 contracts with a total value of $1.2 million had not been included in the headquarters consolidated procurement plan;

(c) *Inconsistencies between the budget and the procurement plan*. Review of procurement activities at the Rwanda country office identified inconsistencies between the budget for 2012 and the procurement plan for the same period. The budget shows procurement of goods and services of $1 million, while the procurement plan shows $60,470. A further review noted instances where procurements were undertaken outside of the approved annual procurement plan. In the absence of an updated procurement plan that is consistent with the approved budget, UN-Women runs the risk of inadequate implementation of the budget and mismatch with procurement commitments;

(d) *Delays in approving procurement plan*. The Board noted that the Rwanda country office procurement plan was approved by headquarters on 13 August 2012, seven months after the beginning of the procurement cycle, which starts on 1 January each year. By the time the plan was approved, the country office had already embarked on most of the procurement. There were no clear explanations for the cause of the delay.

Non-inclusion of liquidated damages clauses in contracts

73. Paragraph 4.4 of the UNDP Programme and Operations Policies and Procedures states that, where time is of the essence, provision for liquidated damages, generally established at 1 per cent of the total contract amount per week, shall be included in the conditions of the contract when delays result in extra cost or loss of revenue or loss of other benefits to the business unit. The Board noted that six contracts worth $809,550 at UN-Women headquarters did not have a liquidated damages clause.

74. UN-Women disagreed with this finding and explained that it had consulted with the Office of Legal Affairs of the Secretariat, which had advised that the clause could not be applied in a systematic way; it depended on the nature of the commodities and the nature of the transactions. However, the Board considers that the liquidated damages clause helps to determine in advance what damages will be assessed in the event of a breach of contract. It also forms a basis to legally enforce an immediate remedy and is a deterrent against non-performance.

75. **UN-Women agreed with the Board's recommendation that it review its procurement function and established delegations of authority. For instance, UN-Women may consider the case for categorizing procurements into strategic and operational requirements and making sure that the strategic acquisitions are processed centrally. The results of the review should also ensure that the headquarters has adequate control over budgeting, spending, monitoring and evaluation, and that compliance with plans, rules and regulations, as well as regular reporting, are assured.**

76. **The Board also recommends that UN-Women consider the benefits of the provisions of paragraph 4.4 of the UNDP Programme and Operations Policies and Procedures and include a liquidated damages clause in its contracts as required.**

77. UN-Women informed the Board that, in January 2013, it had reviewed the procurement function, underlying capacity and segregation of duties to ensure transparency and value for money. Furthermore, UN-Women informed the Board that it had introduced a procurement planning exercise in 2012, which needed to be strengthened. The procurement planning should take place during the annual planning exercise of all offices. The information collected would enable the division of management to identify procurement activities that could be bundled together and those that could be covered by long-term agreements.

10. Information technology and related issues

Delays in deactivating dormant user accounts in the Atlas enterprise resource planning system

78. The Board noted 50 uncleared dormant user accounts exceeding two years since the last sign-in date. Of the users of the 50 dormant accounts, 26 did not feature in the current UN-Women staff list. Delays in deactivation of inactive accounts in the system increase the risk of unauthorized transactions which may affect the integrity of financial data and increase the risk of cyberattacks.

79. UN-Women informed the Board that the process for deactivating user accounts in the Atlas system, which UN-Women shared with other agencies, was a legacy issue stemming from configurations implemented in the former UNIFEM. Following the Board's recommendation, UN-Women had taken immediate measures to review the current user accounts and disable all dormant accounts. UN-Women was also working with UNDP to review the possibilities of improving the Argus system.

80. **UN-Women agreed with the Board's recommendation that, in collaboration with UNDP, it improve the communication procedures between the human resources office and the Argus system focal points to ensure that user accounts for the employees leaving the entity are disabled promptly. In addition, immediate measures should be taken to disable all dormant accounts.**

Use of irrelevant general ledger codes in Atlas

81. Atlas is a shared enterprise resource planning system maintained by UNDP but used by six United Nations agencies, including UN-Women. UN-Women mainly uses the system modules relating to financial, procurement and human capital management.

82. Atlas contains general ledger codes which are common across Atlas agencies. The Board noted instances where some general ledger codes that were relevant to other agencies were used incorrectly by UN-Women field offices to liquidate partner advances.

83. **UN-Women agreed with the Board's recommendation that it institute mechanisms at entity level for controlling and monitoring the use of Atlas general ledger codes (in particular codes 74605 and 71640) to avoid incorrect use or erroneous postings.**

11. Internal audit function

Inadequate capacity of the internal audit function

84. The service-level agreement signed by UN-Women and the Office of Audit and Investigations on 5 December 2011 provided for a two-person dedicated audit function that had responsibility for auditing all activities of UN-Women.

85. The Board noted that UN-Women was strengthening its field presence and rapidly changing its headquarters-based functions to support the expanding field presence. As a result, the number of field offices was expanding to 86, comprised of six regional offices, six multi-country offices, 51 country offices and programme presences in 23 countries.

86. Given the level of UN-Women activities, the internal audit resources made it difficult to execute the audit plan for 2012. As a result, although three audits and the corporate risk assessment were conducted during 2012 as planned, three planned audit reports were not finalized as at 31 December 2012. The UN-Women headquarters and field office risk assessments were completed and the Afghanistan country office audit report was completed. The remaining two audits for the subregional offices in Kenya and India were in progress. This situation was attributed to limitations in the allocation of financial and human resources.

87. The Board was informed that, during 2012, UN-Women and the Office of Audit and Investigations had recognized that the capacity of the internal audit function had not kept pace with the growth of UN-Women and its audit and advisory services requirements. Although the recommended increase of staffing for the internal audit function was supported by the Executive Board in its decision 2012/10 and formalized by means of an amendment of the service-level agreement dated 12 December 2012, the two additional staff were not available to support the audit activities during 2012. They are expected to do so during the latter half of 2013.

88. **The Board recommends that UN-Women assess the level of capacity and capability required to effectively perform the internal audit function in view of the growth of its audit and advisory services requirements.**

12. External audit reports on funds advanced to implementing partners

89. The UN-Women financial regulations require each programme or project to be audited at least once in its lifetime. It further requires that reports from the audit be tracked and that any key issues raised be addressed. To ensure this is done, each office has to establish a database of all audits of projects delivered by implementing partners and forward the list yearly to the headquarters audit function and/or to the audit focal point.

90. The Board reviewed audit reports for 88 projects implemented by partners. Of the independent audit reports, 30 (34 per cent) had qualified opinions and 58 (66 per cent) had unqualified opinions. Furthermore, it was noted that not all implementing partners had prepared a statement of cash balances, and therefore no assurance over cash balances could be provided by auditors. While the Board noted the qualifications concerning the accounts of the 30 projects, its assessment of levels of error in aggregate did not indicate material errors in the financial statements of UN-Women.

91. Common weaknesses noted in the audit reports were inadequate procedures or guidelines, inadequate guidance or supervision at the project level, inadequate monitoring or guidance at UN-Women country offices, insufficient resources, inadequate planning, intentional overriding of internal controls and inadequate training. The Board is of the view that these weaknesses, if not addressed, may lead to increased risk of errors and misstatements in the financial statements, and even increased risk of fraud.

92. **The Board recommends that UN-Women consider the results of audits of its projects and work closely with implementing partners to address the weaknesses identified. The focus should be on implementing partners who have recurring negative reports.**

93. UN-Women informed the Board that it had strengthened its oversight mechanisms for expenses incurred by implementing partners and issued a revised audit approach and new guidelines for the auditing of its non-governmental, governmental and intergovernmental partners. The terms of reference for audit of projects have been revised and the schedule of all projects to be audited is now maintained and updated on an ongoing basis.

94. Management also informed the Board that it was establishing for the first time a centrally coordinated audit of projects assigned to partners. UN-Women acknowledges the issues raised by the audit reports for the individual responsible parties and will ensure through the system in place that the audit recommendations are implemented within specific timelines.

C. Disclosures by management

1. Write-off of losses of cash, receivables and property

95. UN-Women informed the Board that, in accordance with regulation 21.1, losses of cash, receivables and liabilities were written off in the amount of $222,295, of which cash losses accounted for $2,549. These amounts resulted from general ledger reconciliation for the financial periods from 2004 to 2011 and largely related to legacy items from the former UNIFEM.

2. Ex gratia payments

96. UN-Women confirmed that no ex gratia payments had been made in 2012 in accordance with regulation 20.6 of its financial regulations and rules.

3. Cases of fraud and presumptive fraud

97. During 2012, UN-Women did not have any cases of fraud.

D. Acknowledgement

98. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director and her staff.

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the Board of Auditors

(*Signed*) Ludovick S. L. **Utouh**
Controller and Auditor-General of the United Republic of Tanzania
(Lead Auditor)

(*Signed*) **Liu** Jiayi
Auditor-General of China

30 June 2013

Annex

Status of implementation of the Board's recommendations for the year ended 31 December 2011

Of the 28 recommendations that were outstanding as of 31 December 2011, the Board found that 5 were still under implementation. The recommendations under implementation concerned project closure in the Atlas system, the field capacity of UN-Women, validation of payroll, underspending on projects in 2011 and the strategic plan. Those recommendations can be summarized as follows.

Project closure in Atlas

The Board recommended that UN-Women perform financial closure of all operationally closed projects within 12 months of operational closure. Of the 388 projects inherited from UNIFEM, which had been started between 2004 and 2007, 193 were financially closed as at May 2012. The Board also noted that UN-Women planned to continue with the financial closure of old operationally closed projects in June 2013 when the general ledger reconciliation project is complete and once the 2012 general ledger is rolled over. The Board reiterates that UN-Women should expedite implementation of the recommendation.

Field capacity

Regarding the recommendation for UN-Women to expedite the process of filling posts at country and regional offices so as to have adequate staffing, the Board found that the process was ongoing and estimated to be completed by the end of 2013.

Payroll validation

The Board found some progress in implementation of the recommendation that UN-Women perform validation checks on its payroll information submitted to UNDP to ensure that it was valid, accurate and complete. The Board noted that thus far UN-Women staff had been trained only to carry out the validation for headquarters. The UNDP payroll section is initially focusing on the payroll validation tool for international Professional staff and headquarters-based General Service staff. UN-Women considers that there is a need to roll out the plan to the field, where it considers that it should be managed by the international operations manager in the regional offices. UN-Women was in the process of recruiting international operations manager and was of the view that until such recruitment was done it did not have adequate capacity to manage the process at the field level.

Underspending on projects in 2011

UN-Women has introduced monthly review of budget expenses and provides reports to senior management. The entity also makes the reports available to local offices. Nevertheless, the Board found that these measures had not been effective because the problem persisted.

Implementation of the strategic plan and late submission and approval of the subregional strategic note

The Board recommended that UN-Women strive to complete the annual workplan approval process before the start of the performance cycle. For the year under review the Board found that annual workplans had been approved for all field offices and headquarters units for the period 2012-2013, however, the approvals were still done late.

Status of implementation of recommendations for the year ended 31 December 2011

	Summary of recommendation	*Paragraph reference (A/67/5 Add.13)*	*Financial period first made*	*Implemented*	*Under implementation*	*Not implemented*
1	The Board recommended that UN-Women (a) revise its internal control frameworks and related policies and procedures to be in line with its financial rules and regulations; (b) finalize and implement its own policies and procedures; and (c) set specific timelines when the amended policies and procedures would be integrated into its systems.	28	2010-2011	X		
2	The Board recommended that UN-Women (a) develop a plan that defines in detail the activities and timelines of the process to implement IPSAS; and (b) develop a benefits realization plan to assist it in tracking the achievement of objectives.	34	2010-2011	X		
3	The Board recommended that UN-Women urgently (a) strengthen capacity in all functional areas affected by IPSAS implementation; (b) formulate a project team to oversee the remaining activities of IPSAS implementation and review the appropriateness of the chosen accounting policies; (c) revise the plan to develop IPSAS opening balances and the data clean-up plan; (d) conduct user-specific training once all accounting policies had been reviewed and approved; (e) review its financial statement preparation processes to align them with IPSAS; and (f) develop IPSAS model financial statements.	38	2010-2011	X		
4	The Board recommended that UN-Women develop comprehensive finance manual/procedures detailing processes and functions required to provide assurance over its financial management function on a monthly, quarterly and yearly basis.	45	2010-2011	X		
5	The Board recommended that UN-Women develop comprehensive year-end closure instructions to support the preparation of accurate financial statements.	47	2010-2011	X		
6	The Board recommended that UN-Women make payments on the basis of presentation and review of sufficient and appropriate supporting documents.	51	2010-2011	X		
7	The Board recommended that UN-Women (a) conduct a proper review of transactions subject to write-off in accordance with its policies and procedures; and (b) approve write-offs in accordance with the delegated authority provided in its financial rules and regulations.	55	2010-2011	X		
8	The Board recommended that UN-Women (a) perform regular reviews and reconciliations of all balances and transactions that are included in its financial statements; (b) implement controls to ensure validity of transactions posted in the system; (c) develop ageing tools for accounts payable and receivables; and (d) perform appropriate age analysis for outstanding balances.	58	2010-2011	X		
9	The Board recommended that UN-Women perform regular reconciliations of inter-agency balances and obtain confirmations prior to the closure of its accounts.	62	2010-2011	X		
10	The Board recommended that UN-Women develop a funding plan for its end-of-service liabilities.	70	2010-2011	X		

Summary of recommendation	*Paragraph reference (A/67/5 Add.13)*	*Financial period first made*	*Implemented*	*Under implementation*	*Not implemented*
11 The Board recommended that UN-Women (a) develop and implement its own policies and procedures to ensure clarity and consistent application of procedures in the implementation of programmes; (b) where it considers the use of another agency's procedures, develop specific and detailed guidelines on the applicable policies and procedures of that agency after an assessment of whether they were in line with the financial rules and regulations of UN-Women.	76	2010-2011	X		
12 The Board recommended that UN-Women apply changes in accounting policy consistently from the date of adoption.	79	2010-2011	X		
13 The Board recommended that UN-Women (a) draw lessons from other United Nations agencies on processes to manage the national implementation assurance process and revise its guidelines for managing national implemented projects; (b) develop adequate procedures to enable it to manage and monitor expenditure incurred by its implementing partners; and (c) develop and maintain a database for tracking projects to be audited and the outcomes of audits.	88	2010-2011	X		
14 The Board recommended that UN-Women follow up with implementing partners with regard to the submission of annual financial statements and related audit reports.	94	2010-2011	X		
15 The Board recommended that UN-Women (a) improve its project budget management and monitoring procedure to better monitor underspending on projects; and (b) address the cause of delays in project implementation to ensure delivery on its mandate.	97	2010-2011		X	
16 The Board recommended that UN-Women perform financial closure of all operationally closed projects within 12 months of operational closure.	101	2010-2011		X	
17 The Board recommended that UN-Women strive to complete the annual workplan approval process before the start of the performance cycle.	107	2010-2011		X	
18 The Board recommended that UN-Women develop and implement a consolidated procurement plan that was approved and regularly reviewed by the appropriate authority.	111	2010-2011	X		
19 The Board recommended that UN-Women implement procedures, supported by guidelines and tools, to perform supplier evaluations as part of procurement functions.	117	2010-2011	X		
20 The Board recommended that UN-Women (a) consider mechanisms to allow it to comply with its policies and procedures regarding the receipt and consideration of quotes in the procurement of goods and services; and (b) establish an evaluation team with appropriate and sufficient knowledge of the procurement principles to review the bids submitted in accordance with its policies and procedures.	120	2010-2011	X		

	Summary of recommendation	*Paragraph reference (A/67/5 Add.13)*	*Financial period first made*	*Implemented*	*Under implementation*	*Not implemented*
21	The Board recommended that UN-Women (a) perform an adequate reconciliation of the assets registers to ensure that the balance disclosed in the notes of the financial statements is complete, accurate and the assets actually exist; and (b) review on a monthly basis the general ledger accounts to identify assets that require capitalization onto the asset register.	126	2010-2011	X		
22	The Board recommended that UN-Women (a) review and update the asset register on a regular basis to ensure that it includes all the required information relating to the assets; (b) develop guidance on asset certification which addresses all the weaknesses by the Board in the assets verification process to ensure that its asset register is complete and accurate; (c) approve all asset disposals through the delegated levels of authority and maintain supporting documents; (d) perform the asset disposal process in a timely manner; and (e) use an appropriate system-generated asset register to perform asset physical counts.	130	2010-2011	X		
23	The Board recommended that UN-Women expedite the process of filling posts at country and regional offices to have adequate staffing.	136	2010-2011		X	
24	The Board recommended that UN-Women perform validation checks on its payroll information submitted to UNDP to ensure it is valid, accurate and complete.	140	2010-2011		X	
25	The Board recommended that UN-Women (a) review and reconcile manual leave balances with Atlas reports on a regular basis; (b) ensure that the leave balances of all active staff members are uploaded into the Atlas leave system; and (c) calculate the leave accrual based on the correct and complete year-end leave balances.	144	2010-2011	X		
26	The Board recommended that UN-Women consider the establishment of a properly constituted audit committee to strengthen its governance and oversight arrangements.	147	2010-2011	X		
27	The Board recommended that the Office of Audit and Investigations develop a plan based on a UN-Women risk assessment that takes into account the total risks of the new entity as a whole, including headquarters units.	155	2010-2011	X		
28	The Board recommended that UN-Women (a) develop a detailed action plan to address internal audit recommendations; and (b) regularly monitor progress in implementing internal audit recommendations.	165	2010-2011	X		
	Total	**28**		**23**	**5**	**0**
	Percentage	**100**		**82**	**18**	**0**

Chapter III
Certification of the financial statements

30 April 2013

Pursuant to financial regulation 1201 of the United Nations Entity for Gender Equality and the Empowerment of Women, I certify that, to the best of my knowledge, information and belief, all material transactions have been properly charged in the accounting records and are properly reflected in the appended financial statements for the year ended 31 December 2012.

I acknowledge that:

The management is responsible for the integrity and objectivity of the financial information included in these financial statements;

The financial statements have been prepared in accordance with the International Public Sector Accounting Standards and include certain amounts that are based on the management's best estimates and judgements;

Accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions and that, overall, policies and procedures are implemented with an appropriate segregation of duties. The internal auditors continually review the accounting and control systems;

The management provided the internal auditor with full and free access to all accounting and financial records;

The recommendations of the Board of Auditors and internal auditors are reviewed by the management. Internal control procedures have been revised or are in the process of revision, as appropriate, in response to those recommendations.

I am in receipt of a letter of certification from the Deputy Assistant Administrator, Deputy Director and Chief Finance Officer, Bureau of Management, United Nations Development Programme (UNDP), which provides the same assurances with respect to UNDP accounting procedures and related systems of control to the extent that services are provided by UNDP to UN-Women in accordance with the service-level agreements currently in force.

(*Signed*) Giovanie **Biha**
Director
Division of Management and Administration
United Nations Entity for Gender Equality and the
Empowerment of Women

The Chair of the Board of Auditors
United Nations
New York

Chapter IV
Financial report for the year ended 31 December 2012

A. Introduction

1. The United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) is honoured to submit its financial report for the year ending 31 December 2012, in accordance with regulation 12.1 of the financial regulations and rules. These financial statements have for the first time been prepared in accordance with the International Public Sector Accounting Standards (IPSAS). The organization has completed its second year of operating as a composite entity since its creation by the General Assembly in resolution 64/289.

2. These financial statements were transmitted to the Board of Auditors on 30 April 2013 and at the same time to the Advisory Committee on Administrative and Budgetary Questions as required by financial rule 1202. The Board of Auditors has given its opinion and report on the 2012 financial statements, both of which are also submitted to the Board as required by regulation 26.2.

B. Resource mobilization and funding gap

3. UN-Women undertakes normative and intergovernmental work and is funded from voluntary and assessed contributions. The assessed contributions form part of the regular budget of the Secretariat for the 2012-2013 biennium. The Entity's operational activities are funded from voluntary contributions, comprising regular and other resources. Resource mobilization targets are established in the entity's strategic plan for 2011-2013 and updated in the institutional budget for 2012-2013. For 2012, the resource mobilization target was set at $300,000,000, divided equally between regular and other resources. Voluntary contributions in 2012 were $114,100,000 from regular resources and $93,700,000 from other resources. When these actual results are compared to the target, they represent a shortfall of $92,200,000, specifically, $35,900,000 for regular resources and $56,300,000 for other resources.

4. Resource mobilization remains the key challenge that UN-Women faces going forward. As a result, resource mobilization and fundraising activities will be intensified, guided by a strategic partnership and resource mobilization strategy that (a) targets traditional and non-traditional donors including the private sector and foundations; (b) builds partnerships and access to donor funds at the programme country level; (c) widens and deepens the donor base, including encouraging multi-year pledges to enhance the sustainability and predictability of regular resources funding; and (d) utilizes diverse communications platforms to broaden outreach to the general public.

5. In order to address the 2012 funding gap from regular resources, which was caused by the contribution reductions of three major donor countries of the Organization for Economic Cooperation and Development, UN-Women stepped up outreach to all Member States. As a result, the entity received core contribution increases from more than 30 Member States, but this was not sufficient to offset the reductions. Considering this shortfall, UN-Women adopted a prudent and cautious approach during 2012 in establishing its operational structure, which was approved by the Executive Board through its decisions 2011/5 and 2012/6.

6. The future liquidity of UN-Women will depend upon securing payments from Member States during the first half of the financial year for regular resources so that operations can be effectively planned, budgeted and implemented. For other resources, timely payments in line with the executed agreement will ensure that project implementation can commence as planned.

C. Major achievements and improvements in 2012

1. Regional architecture

7. The Executive Board approved the implementation plan of the new regional architecture in November 2012. During the same month, UN-Women issued new frameworks for internal controls and delegations of authority. In December 2012, UN-Women released its Programme and Operations Manual, which supports this major organizational change. With the implementation of the regional architecture UN-Women began a new way of working. Country offices have been strengthened and are supporting national Governments and the United Nations system with increased capacity, training and delegation of authority. Four of six regional offices have been established.

8. Three main benefits of the regional architecture are already evident:

(a) Consolidation of resources and economies of scale;

(b) Empowered decision-making in the field and improved efficiency;

(c) Strengthened country offices to effectively support programme countries and national priorities for gender equality and women's empowerment.

2. Transparency and accountability

9. UN-Women achieved major milestones during the 2012 financial year in terms of enhancing transparency and accountability for results. As the entity increased its global footprint through the deployment of the regional architecture, new internal control and delegation of authority frameworks were issued to allow personal delegations of authority to cascade throughout the organization. The decentralized decision-making process was supported by the launch of the comprehensive programme and operations manual.

10. Furthermore, to instil improved disciplines in financial management, UN-Women released a finance manual to guide personnel in complying with IPSAS. Staff members were trained in webinars and in face-to-face meetings to gain proficiency and knowledge in applying new business processes and procedures.

11. In October 2012, UN-Women established its Audit Advisory Committee comprising five independent members from business and academia to assist the Executive Director in her oversight duties. The Audit Advisory Committee has met regularly with senior management and contributes to promoting a culture of governance.

12. In harmony with the practice of sister United Nations entities, the UN-Women Executive Board decided to publish internal audit reports from 1 December 2012 onwards. The publication of internal audit reports enhances the transparency of the entity's activities to donors and Member States.

13. UN-Women also launched its anti-fraud hotline to permit staff members as well as third parties outside the entity to report wrongdoing.

14. In November 2012, UN-Women became the 100th organization to publish information with the International Aid Transparency Initiative (IATI). UN-Women has adopted a phased implementation approach and will progressively enhance reporting on its open-data IATI website (http://open.unwomen.org).

3. 2011 audit recommendations

15. UN-Women received 28 audit recommendations, of which 23 have been fully implemented and 5 are on track for completion in accordance with the timelines established in the report of the Secretary-General (A/67/319/Add.1). The implementation of one recommendation is partially delayed owing to dependency on the availability of a UNDP validation tool.

16. UN-Women adopted the International Public Sector Accounting Standards (IPSAS) in 2012, and the audit recommendations relating to IPSAS have been fully implemented. The implementation of IPSAS has allowed UN-Women to introduce new standard operating procedures and instructions to promote and demonstrate stronger financial management of assets and resources under its control.

17. In 2012, UN-Women initiated a new approach to the annual audit of selected projects implemented by non-governmental, governmental and intergovernmental partners. Revised guidelines and terms of reference for the audit of these projects were issued on December 2012 and the services of an international audit firm were engaged to audit the identified UN-Women projects worldwide. Under this new approach, UN-Women targets a yearly coverage of at least 40 per cent of the total project expenditures during the audit period in order to provide sufficient assurance that funds entrusted to partners are used as intended. UN-Women now centrally manages, coordinates and monitors the results of this annual audit activity.

4. Strengthening of financial management

18. During 2012 the financial management processes were significantly improved to support the compilation of the first set of IPSAS-compliant financial statements. These important accomplishments included:

(a) Reconciliation of the legacy general ledger balances from 2004 to 2011;

(b) Implementation of comprehensive year-end and month-end closure instructions at headquarters and in country offices;

(c) Release of a detailed finance manual;

(d) Capacity-building training for all levels of headquarters and country office staff.

D. Financial performance

19. UN-Women reports the following segments:

(a) The regular resources segment reflects unearmarked donations used to achieve the entity's mandate;

(b) The other resources segment represents voluntary donations earmarked for specific projects;

(c) Assessed resources are sums assessed on Member States and transferred to UN-Women by the General Assembly.

Financial performance by funding source

(Thousands of United States dollars)

	Regular resources	*Other resources*	*Assessed*	*Elimination*	*Total*
Total revenue	117 755	101 129	7 235	(5 978)	220 141
Total expenses	118 931	115 507	7 427	(5 978)	235 887
Surplus/(deficit) for the year	**(1 176)**	**(14 378)**	**(192)**	**–**	**(15 746)**

20. As total expenses for UN-Women were $235,887,000 and total revenue was $220,141,000, the entity recorded a deficit of $15,746,000 for the year ended 31 December 2012. As indicated in note 2 to the financial statements, under IPSAS, the matching principle of revenue and expense does not apply for non-exchange transactions. This means that contributions can be received in one financial year and spent in another, in particular in cases where contributions are received late in the financial year. The accumulated surplus brought forward from the prior financial year represents the unexpended portion of contributions (both earmarked and unearmarked) to be utilized in future for the operational requirements of UN-Women.

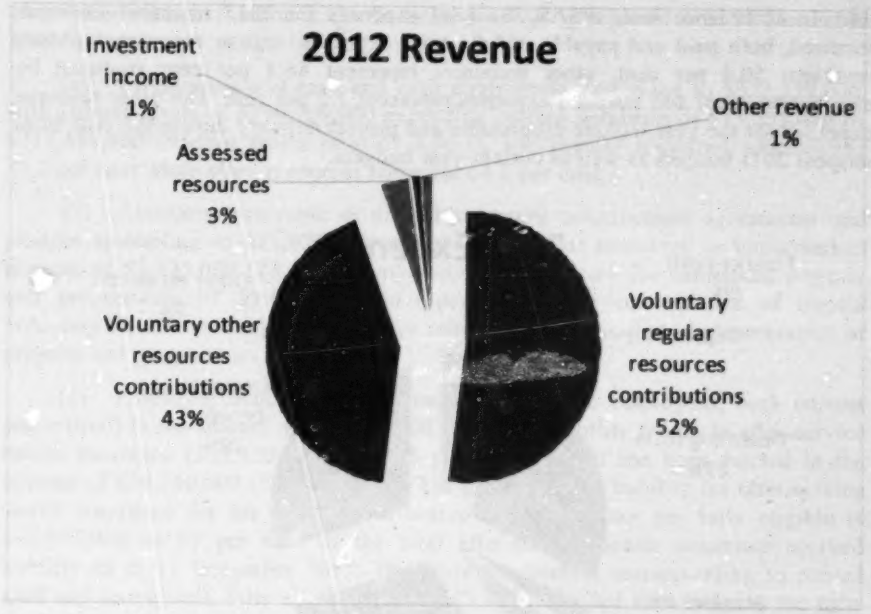
21. The deficit was mainly due to other resources ($14,378,000), which represent earmarked project expenses in 2012 relating to prior-year unspent budgets (as evidenced by the large accumulated surplus brought forward from 2011) and 2012 expenses against current-year budgets. For assessed resources, as the budget is approved on a two-year cycle, it can be overspent or underspent in any one year, but not overspent in aggregate over the two years.

Revenue analysis

(Thousands of United States dollars)

	Regular resources	*Other resources*	*Assessed*	*Elimination*	*Total*
Contributions	114 086	93 676	7 235	–	214 997
Investment income	981	1 177	–	–	2 158
Other revenue	2 688	6 276	–	(5 978)	2 986
Total	**117 755**	**101 129**	**7 235**	**(5 978)**	**220 141**

22. The total revenue for 2012 includes revenue received and receivable, in accordance with IPSAS.



23. Of the total revenue of $220,141,000, contributions accounted for $214,997,000 and comprised:

(a) Voluntary regular resource (unearmarked) contributions (53.1 per cent of all contributions), which fund the operational requirements and projects and programmes of UN-Women;

(b) Voluntary other resource contributions (43.6 per cent), which are earmarked for specific programmes and projects of UN-Women;

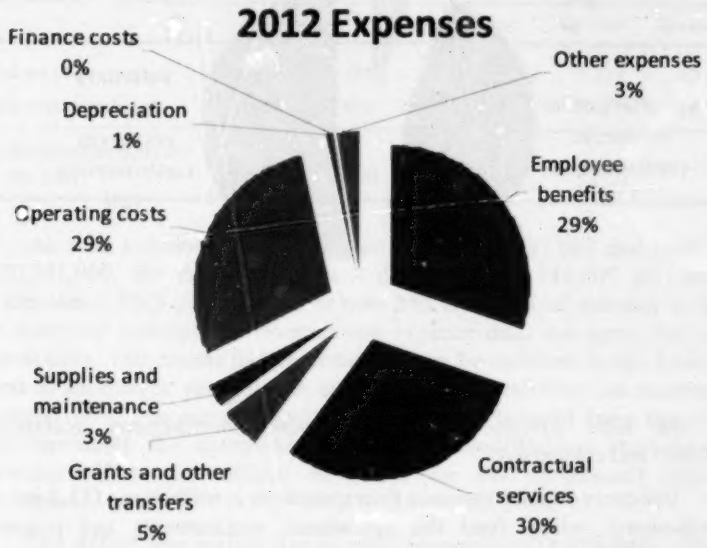
(c) Assessed resources from the United Nations regular budget (3.3 per cent), which fund the normative and intergovernmental work of UN-Women.

Expenditure analysis

(Thousands of United States dollars)

	Regular resources	*Other resources*	*Assessed*	*Elimination*	*Total*
Employee benefits	46 439	17 430	7 132	–	71 001
Contractual services	24 882	46 210	34	–	71 126
Grants and other transfers	3 007	8 210	–	–	11 217
Supplies and maintenance	3 963	2 860	1	–	6 824
Operating costs	36 024	37 042	259	(5 978)	67 347
Depreciation	853	610	–	–	1 463
Finance costs	68	39	–	–	107
Other expenses	3 695	3 106	1	–	6 802
Total	**118 931**	**115 507**	**7 427**	**(5 978)**	**235 887**

24. In accordance with IPSAS, the total expenses for 2012 represent expenses incurred, both paid and payable. Of the total expenses, regular resource expenses represent 50.4 per cent, other resources represent 46.4 per cent (reduced by elimination item) and assessed expenses represent 3.2 per cent. The other resource expenses for the year include programme and project delivery during the year from unspent 201' budgets as well as current-year budgets.



Financial position by funding source

(Thousands of United States dollars)

	Regular resources	*Other resources*	*Assessed*	*Elimination*
Total assets	131 480	257 573	858	389 911
Total liabilities	73 371	39 790	1 058	114 219
Total net assets/equity	**58 109**	**217 783**	**(200)**	**275 692**

25. Total net assets/equity by segment (see note 5 to the financial statements) comprise:

(a) Regular resources, the cash required to fund operations for the first few months of the new financial year while UN-Women awaits new voluntary contributions from donor Governments;

(b) Other resources, the unspent budgets for earmarked projects and programmes which will be expensed in future periods in accordance with donor agreements;

(c) The assessed resources shortfall, which will be rectified by a reduction in the allocation for the following year of the biennium.

26. Other items in relation to the financial position by segment as at 31 December 2012 include:

(a) Investments and cash and cash equivalents amounting to $322,259,000, with current assets of $290,709,000 exceeding current liabilities of $73,255,000 by $217,454,000 (current assets ratio of 3.96:1), and regular resources representing 35.2 per cent while other resources represent 64.8 per cent;

(b) Accounts receivable or unpaid voluntary contributions agreements and pledges amounting to $11,977,000, comprising regular resources or unearmarked pledges of $2,325,000 (19.4 per cent) and other resources for earmarked projects and programmes of $9,652,000 (80.6 per cent). The consequence of unpaid voluntary contributions, particularly for other resources, is that implementation of projects and programmes is delayed;

(c) Employee benefits (contractual obligations to employees, both current and retired) in the amount of $47,440,000. The main liability relates to after-service health insurance ($35,320,000 or 74.45 per cent), which has been funded in the amount of $24,240,000 (68.6 per cent). The portion of the liability for after-service health insurance for the category of active employees, not yet fully eligible is $22,937,000 or 65 per cent of the total after-service health insurance accrued liability as at 31 December 2012. Therefore the portion corresponding to retired staff and active staff, fully eligible of $12,383,000 is funded 1.96 times by the fully funded amount of $24,240,000;

(d) Reserves, including operational reserves of $21,000,000 and field accommodation reserves of $1,000,000 as approved by the Executive Board in its decision 2012/8.

Chapter V

Financial statements for the year ended 31 December 2012

Statement I

United Nations Entity for Gender Equality and the Empowerment of Women

Financial position as at 31 December 2012

(Thousands of United States dollars)

		2012
Assets		
Current assets		
Cash and cash equivalents	(note 6)	104 107
Investments	(note 7)	124 433
Accounts receivable	(note 8)	11 977
Advances	(note 9)	46 696
Other assets	(note 10)	3 496
Subtotal		**290 709**
Non-current assets		
Investments	(note 7)	93 719
Property, plant and equipment	(note 11)	5 483
Subtotal		**99 202**
Total assets		**389 911**
Liabilities		
Current liabilities		
Accounts payable	(note 12)	60 830
Employee benefits	(note 13)	6 476
Other liabilities	(note 14)	5 949
Subtotal		**73 255**
Non-current liabilities		
Employee benefits	(note 13)	40 964
Subtotal		**40 964**
Total liabilities		**114 219**
Net assets/equity		
Accumulated surplus/(deficit)	(note 15)	253 692
Reserves	(note 16)	22 000
Total net assets/equity		**275 692**

The accompanying notes are an integral part of these financial statements.

Statement II

United Nations Entity for Gender Equality and the Empowerment of Women

Financial performance for the year ended 31 December 2012

(Thousands of United States dollars)

		Amount
Revenue		
Voluntary contributions	(note 17)	207 762
Assessed contributions	(note 18)	7 235
Investment income	(note 19)	2 158
Other revenue	(note 20)	2 986
Total revenue		**220 141**
Expenses		
Employee benefits	(note 21)	71 001
Contractual services	(note 21)	71 126
Grants and other transfers	(note 21)	11 217
Supplies and maintenance	(note 21)	6 824
Operating costs	(note 21)	67 347
Depreciation	(note 21)	1 463
Finance costs	(note 21)	107
Other expenses	(note 21)	6 802
Total expenses		**235 887**
Surplus/(deficit) for the year		**(15 746)**

The accompanying notes are an integral part of these financial statements.

Statement III

United Nations Entity for Gender Equality and the Empowerment of Women

Changes in net assets/equity for the year ended 31 December 2012

(Thousands of United States dollars)

	Amount
Net assets/equity as at 31 December 2011	
Accumulated surplus/(deficit)	262 452
Operational reserve	21 000
	283 452
Change in accounting policy related to IPSAS	
Assets	
Accounts receivable	14 544
Investments	3

		Amount
Advances		(323)
Property, plant and equipment		3 838
		18 062
Liabilities		
Employee benefits		(8 439)
Other liabilities		2 465
		(5 974)
Net increase due to IPSAS as at 1 January 2012	(note 3)	12 088
Restated balance as at 1 January 2012		295 540
Movement during the year		
Current year surplus/(deficit)		(15 746)
IPSAS reserve adjustments during 2012	(note 15)	
Accounts receivable		(329)
Property, plant and equipment		438
Refunds to donors	(note 15)	(800)
Field accommodation reserve	(note 16)	1 000
Actuarial gains/(losses)	(note 13)	(4 411)
Total net assets/equity as at 31 December 2012		**275 692**

The accompanying notes are an integral part of these financial statements.

Statement IV

United Nations Entity for Gender Equality and the Empowerment of Women

Cash flow for the year ended 31 December 2012

(Thousands of United States dollars)

	Amount
Cash flows from operating activities	
Net surplus/(deficit) for the year	(15 746)
Adjustment for:	
Depreciation	1 463
Changes in assets and liabilities	
(Increase)/decrease in accounts receivable	2 567
(Increase)/decrease in other assets	(1 120)
(Increase)/decrease in advances	(28 616)
(Increase)/decrease in accounts payable	28 793
(Increase)/decrease in employee benefits	9 256
(Increase)/decrease in other liabilities	4 096
(Gains)/losses on sale of property, plant and equipment	84

		Amount
Refunds to donors		(800)
Decrease in IPSAS reserve for receivables		(329)
Actuarial gains/losses		(4 411)
Investment income		(2 158)
Movements in reserves/provisions		1 000
Net cash generated from operating activities		**(5 921)**
Cash flows from investing activities		
Purchases of property, plant and equipment		(3 204)
Increase in IPSAS reserve for property, plant and equipment		438
Proceeds from sales of property, plant and equipment		12
Cash flow from investment income		2 158
(Increase)/decrease in investments		90 548
Net cash generated from investing activities		**89 952**
Net (decrease)/increase in cash and cash equivalents		**84 031**
Cash and cash equivalent at beginning of year		20 076
Cash and cash equivalent at end of year	**(note 6)**	**104 107**

The accompanying notes are an integral part of these financial statements.

Statement V

United Nations Entity for Gender Equality and the Empowerment of Women

Comparison of budget and actual amounts for the year ended 31 December 2012

(Thousands of United States dollars)

	Original budget	*Final budget (as at 30 November 2012)*	*Actual amounts on comparable basis*	*Difference between final budget and actual amounts*
Regular budget activities	7 235	7 235	7 097	138
Development activities				
Programme	298 500	291 182	205 585	85 597
Development effectiveness	18 950	15 561	11 848	3 713
United Nations development coordination	9 267	7 698	4 996	2 702
Management activities	35 679	43 489	34 549	8 940
Change management	2 000	2 000	1 148	852
Total	**371 631**	**367 165**	**265 223**	**101 942**

The accompanying notes are an integral part of these financial statements.

Notes to the financial statements

Note 1
Reporting entity

The United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) was established by the General Assembly in resolution 64/289 and became operational in January 2011. Grounded in the vision of equality enshrined in the Charter of the United Nations, UN-Women works towards the elimination of discrimination against women and girls; the economic empowerment of women; and the achievement of equality between women and men as partners and beneficiaries of development, human rights, humanitarian action and peace and security.

UN-Women is mandated to support intergovernmental bodies, such as the Commission on the Status of Women, in their formulation of policies, global norms and standards. The entity mobilizes political will and resources to help Member States implement those standards, standing ready to provide suitable technical and financial support to those countries that request it and to forge successful partnerships with civil society. Furthermore, UN-Women has been assigned the mandate to hold the United Nations system accountable for its own commitment on gender equality through the system-wide action programme.

UN-Women is governed by its Executive Board, which consists of representatives of Member States. The Executive Board guides the strategic direction and policies of the entity to ensure that all operational aspects of the activities of UN-Women are executed effectively by the Under-Secretary-General/Executive Director.

UN-Women is headquartered in New York and is expanding its presence at the regional and country levels. The roll-out of the regional architecture, with a planned six regional offices, six multi-country offices and close to 50 country offices, is designed to ensure that the entity has the presence and field capacity to deliver on its mandate. UN-Women also has a programme presence in over 20 countries to pursue its goals of achieving gender equality and the empowerment of women. UN-Women serves the donor community with liaison offices in Brussels and Copenhagen.

Note 2
Significant accounting policies

(a) Basis of preparation

Statement of compliance

The financial statements of UN-Women have been prepared on an accrual and going concern basis in accordance with the International Public Sector Accounting Standards (IPSAS). Where an IPSAS pronouncement does not address a particular issue, the appropriate provision of the International Financial Reporting Standards has been applied.

Adoption of the International Public Sector Accounting Standards

This is the first set of financial statements to be prepared in accordance with IPSAS. The adoption of IPSAS has required significant changes to be made to the

accounting policies previously followed by UN-Women. This includes the preparation of financial statements on an annual basis in accordance with IPSAS, compared to previous preparation on a modified cash basis in accordance with the United Nations System Accounting Standards. The adoption of the new accounting policies has resulted in changes to the assets and liabilities recognized in the statement of financial position. Accordingly, the net impact of the change in accounting policies on the net assets/equity of UN-Women is shown in the statement of changes in net assets/equity. The net effect of the changes brought about by the adoption of IPSAS in the statement of financial position amounted to an increase in total net assets of $12,088,000 on 1 January 2012. Further adjustments to the IPSAS reserve during 2012 resulted in an increase in total assets as at 31 December 2012 of $12,197,000 (see notes 3 and 15). As permitted upon the initial adoption of IPSAS, comparative information has not been provided in the statements of financial position, financial performance or cash flow.

During 2010, the International Public Sector Accounting Standards Board issued Standards 28 (Financial instruments: presentation), 29 (Financial instruments: recognition and measurement) and 30 (Financial instruments: disclosures). The standards are effective for periods beginning after 1 January 2013, with early adoption permitted. UN-Women chose to adopt these standards early and was in compliance with them for the reporting period ending 31 December 2012.

Basis of recognition of revenues and expenses

Under the accrual basis of accounting, revenues and expenses (except for non-exchange transactions) are recognized in the financial statements in the period to which they relate.

Revenue

Voluntary contributions are recognized as revenue when confirmed in writing by donors based on the fair value of the benefit received unless any stipulation defers this recognition. Multi-year agreements are apportioned by calendar year over the period of the agreement and recognized when conditions are met. Cash received relating to future financial years is recognized as deferred income at the year end.

Assessed contributions are issued as an annual allotment from the United Nations regular budget and are assessed and approved for a two-year budget period. The amount of these contributions is then apportioned between the two years and recognized on a monthly basis.

In-kind contributions, except services, that directly support approved operations and activities, have budgetary impact and can be reliably measured, are recognized at fair value as expense and contribution. These contributions include use of premises, utilities and transport.

In-kind contributions of services are not recognized but the estimated cost saving is disclosed (see note 17).

Donated property, plant and equipment are valued at fair market value and recognized as fixed assets and contribution. The donated right to use an asset is valued at the fair market value of the right to use. The excess of the fair market value of the right to use over any sums actually paid is shown as contribution

income together with a matching expense. When transferred assets are received as contributions in kind and conditions requiring their return upon non-performance are disclosed in the agreements, a liability is initially recognized. When these conditions are satisfied, the revenue is recognized. When restrictions are disclosed in the agreements which do not require their return, the revenue is recognized upon confirmation of contributions.

Expenses

Expenses are recognized when goods are delivered and services are rendered. Project expenses are recognized once UN-Women receives a financial report from the partner evidencing the completion of activities.

Under IPSAS, the matching principle of revenue and expense does not apply for non-exchange transactions. The focus of IPSAS is the financial position which is evidenced by the recognition of assets when there is sufficient control and of liabilities when the criteria to recognize liabilities exist. As a consequence, the excess of revenue over expenses results in a surplus (or the excess of expenses over revenue results in a deficit) which is carried forward to the accumulated surplus or deficit. Accumulated surplus represents the unexpended portion of contributions to be utilized for the future operational requirements of UN-Women.

(b) Foreign currency transactions

The functional and reporting currency of UN-Women is the United States dollar. Transactions in currencies other than the United States dollar are translated into United States dollars at the United Nations Operational Rate of Exchange prevailing at the date of the transaction. Monetary assets and liabilities in currencies other than the United States dollar are translated into United States dollars at the United Nations Operational Rate of Exchange in effect at the reporting date. Non-monetary assets and liabilities denominated in a currency other than the United States dollar that are measured at historical cost are translated at the exchange rate in effect at the date of the transaction. Foreign exchange gains and losses, both realized and unrealized, resulting from such transactions are accounted for in the statement of financial performance.

(c) Financial instruments

Financial instruments are recognized when UN-Women becomes a party to the contractual provisions of the instrument until such time as the rights to receive cash flows from those assets have expired or have been transferred and UN-Women has transferred substantially all the risks and rewards of ownership.

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and money market and short-term deposits. Instruments with maturities of less than three months are classified as cash and cash equivalent.

Instruments with maturities in excess of three months are classified as investments. The carrying value of cash and cash equivalents approximates fair value.

(e) Investments

All investments are held to maturity and not held for trading. Accordingly, they are reported at amortized cost using the effective interest rate method. Costs of acquisition are included in the initial carrying amount of the assets. Investment revenue is recognized as it accrues, under the effective interest method.

(f) Contributions and other receivables

Receivables are stated at fair value, comprising nominal value less allowance for estimated irrecoverable amounts. An allowance is established when there is objective evidence, based on a review of outstanding amounts at the reporting date, that UN-Women will not be able to collect all amounts due according to the original terms of the receivable.

(g) Advance payments

UN-Women issues cash advance payments to partners contracted in the context of programme execution. These advances are recognized at fair value as a receivable. The expense is recognized in the statement of financial performance once UN-Women receives a financial report from the partner to evidence completion of activities. Staff members are also issued cash advance payments which are recognized at fair value as receivables. The expense is recognized when the advance is liquidated through a claim or repayment of the advance.

(h) Inventories

UN-Women has determined that it has no inventory and does not undertake distribution. No-charge publication materials and campaign brochures prepared by UN-Women are for promotional and information purposes only. These items do not have longevity and are generally used within a 12-month period, and therefore the value of any remaining materials on hand at the year end would be significantly depreciated. Accordingly, the cost of publication material is recognized as an expense when incurred.

(i) Property, plant and equipment

Property, plant and equipment are stated at historic cost less accumulated depreciation and any impairment losses. The capitalization threshold for property, plant and equipment for which UN-Women has control is a total cost of at least $1,000 per unit. Depreciation is provided for property, plant and equipment over the estimated useful life of each asset using the straight-line method, except for land, which is not subject to depreciation. Historic cost includes expenditure directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to UN-Women and the cost can be measured reliably. The estimation of the useful life of the asset is a matter of judgement based on the experience of UN-Women with similar assets. Therefore, the useful life of an asset may be shorter than its economic life. Repair and maintenance costs are charged to the statement of financial performance during the financial period in which they are incurred.

UN-Women is deemed to control an asset if it can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or regulate the access of third parties to the asset. This can be the case when UN-Women is implementing the project directly. Project assets that are not controlled by UN-Women are expensed as incurred. Leasehold improvements are recognized as assets and valued at cost, and depreciated over the lesser of remaining useful life of the improvements or the lease term. Impairment reviews are undertaken for all assets at least annually.

The estimated useful life ranges in years for property, plant and equipment classes are as follows:

Class	*Estimated useful life*
Land	Not applicable
Buildings	
Permanent	50
Temporary	10
Furniture and fixtures	8
Communications and information technology equipment	4-5
Vehicles	6
Machinery and equipment	5
Security equipment	5

(j) Intangible assets

UN-Women does not currently hold any intangible assets. Under IPSAS, intangible assets are carried at cost less accumulated amortization and any impairment loss. Intangible assets are capitalized provided they have a useful life of more than one year and are above the threshold limit of $5,000 per unit. Amortization is provided on a straight-line basis on all intangible assets of finite life, typically three years. Where the intangible asset has an indefinite useful life it shall not be amortized but will be reviewed for impairment by comparing its recoverable service amount with its carrying amount.

(k) Leases

Leases where the lessor retains a significant portion of the risks and rewards inherent to ownership are classified as operating leases. Payments made under operating leases are charged to the statement of financial performance on a straight-line basis over the period of the lease. The value of the future lease payments within the current lease term is disclosed in note 25.

Leases where the lessee retains a significant portion of the risks and rewards inherent to ownership are classified as finance leases. UN-Women has not entered into any finance leases.

(l) Employee benefits

UN-Women recognizes the following employee benefits:

(a) Short-term employee benefits, which are those that fall due wholly within 12 months after the end of the accounting period in which the employee rendered the related service;

(b) Long-term employee benefits, which are those due to be settled beyond 12 months after the employee rendered the related service, including post-employment benefits (pension and after-service health insurance and other long-term employee benefits;

(c) Termination benefits.

Short-term employee benefits are measured at their nominal value based accrued entitlements at current rates of pay. These benefits may include, at year-end, remuneration, accrued annual leave, home leave liability and other short-term benefits.

Post-employment benefits include pension, post-employment medical care, repatriation benefits and other lump sum payments after the completion of employment. Post-employment benefit plans are classified as either defined contribution or defined benefit plans.

UN-Women is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified by article 3 (b) of the Regulations of the Fund, membership in the Fund is open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations.

The pension plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the plan. UN-Women, in common with the other participating organizations, is not in a position to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes, and hence has treated this plan as if it were a defined contribution plan in line with the requirements of International Public Sector Accounting Standard 25. The contributions of UN-Women to the plan during the financial period are recognized as expenses in the statement of financial performance.

The after-service health insurance plan extends subsidized health insurance coverage to retirees and their dependants under the same health insurance schemes as for active staff based on certain eligibility requirements. The after-service health insurance plan is a defined benefit plan.

The category of other long-term employee benefits includes long-term compensation in the event of death, injury or illness.

Termination benefits generally include indemnities for voluntary redundancy and are expected to be settled within 12 months of the reporting period.

(m) Accounts payable

Payables arising from the purchase of goods and services are recognized at cost when the supplies or services are delivered or rendered and accepted through receipt by UN-Women. Accruals are recognized at cost or the best estimate of the amount required to settle the obligation at the reporting date.

(n) Provisions and contingent liabilities

Provisions are made for future liabilities and charges where UN-Women has a present legal or constructive obligation as a result of past events, it is probable that UN-Women will be required to settle the obligation and a reliable estimate can be made of the obligation.

Other obligations, which do not meet the recognition criteria for liabilities, are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of UN-Women and the liability can be reliably estimated.

Note 3
Changes in accounting policy

Opening balances presented within these financial statements represent the 2011 audited statement of financial position and statement of net assets/equity balances that have been restated on a basis consistent with IPSAS. IPSAS opening adjustments result in a net increase in net assets/equity of $12,088,000 for UN-Women as at 1 January 2012. Further adjustments were made to IPSAS reserves during 2012, resulting in IPSAS reserves at 31 December 2012 of $12,197,000 (see note 15). The adjustments made by UN-Women are described in more detail below.

(a) Revenue and accounts receivable

As stated in the revenue policy, UN-Women recognizes revenue when confirmed in writing by donors unless any stipulation defers this recognition. Accounts receivable are also recognized at the same point. However, in certain agreements a schedule of payments is included which indicates when funds are to be transferred to UN-Women. This is tantamount to the period for which the funds are intended to be utilized. The funds are therefore recognized in the period to which they relate.

(b) Investments

Investments have been restated to their amortized cost on an effective-yield basis.

(c) Advances

Advances paid to staff for education grants prepaid for the future financial year are recognized as prepayments and expensed in the period to which the advance relates. Advances to partners were recognized in the financial statements as at 31 December 2011; therefore no adjustment was required on introduction of IPSAS.

(d) Property, plant and equipment

Assets controlled by UN-Women at headquarters and at field offices have been recognized in the financial statements at their historical cost less accumulated depreciation.

(e) Employee benefits

The recognition under IPSAS of employee costs, as they are earned rather than when they are paid, requires inclusion of an opening liability reflecting entitlements earned but not paid. Employee benefits include an adjustment to accrue the total liability for after-service health insurance and repatriation benefits in accordance with the actuarial valuation as at 31 December 2011.

(f) Other IPSAS opening balance adjustments

Under IPSAS, expenditure for goods and services is recognized on delivery, not on the funds being committed and consequently, liabilities relating to unliquidated obligations are no longer recognized in the financial statements. Deferred income for 2012 and prior-period error adjustments of a significant nature have been recognized as part of the opening balance adjustments.

Note 4
Critical accounting estimates and judgements

The preparation of financial statements in accordance with IPSAS necessarily includes the use of accounting estimates and management assumptions and judgement. The areas where estimates, assumptions or judgement are significant to the financial statements of UN-Women include, but are not limited to, post-employment benefits obligations, provisions, financial risk on accounts receivable and advances, accrued charges, contingent assets and liabilities, and degree of impairment of accounts receivable, advances, investments and property, plant and equipment. Actual results could differ from those estimates. Changes in estimates are recognized in the period in which they became known.

Note 5
Segment reporting

Segment reporting is required to evaluate an entity's past performance and to make decisions about its future allocation of resources. UN-Women reports the following segments:

(a) The regular resources segment represents funds donated to UN-Women to be used at the discretion of the Executive Director of UN-Women to achieve the mandate of UN-Women;

(b) The other resources segment represents funds donated to UN-Women that are earmarked for specific projects;

(c) The assessed resources segment represents sums assessed on Member States and transferred to UN-Women by the General Assembly.

Inter-segment transactions are disclosed in the segment reporting but eliminated in the statement of financial position and the statement of financial performance.

Financial position by segment as at 31 December 2012

(Thousands of United States dollars)

	Regular resources	*Other resources*	*Assessed resources*	*Total*
Assets				
Current assets				
Cash and cash equivalents	36 382	67 426	299	104 107
Investments	43 485	80 590	358	124 433
Accounts receivable	2 325	9 652	–	11 977
Advances	10 608	36 156	(68)	46 696
Other current assets	2 591	905	–	3 496
Non-current assets				
Investments	32 752	60 698	269	93 719
Property, plant and equipment	3 337	2 146	–	5 483
Total assets	**131 480**	**257 573**	**858**	**389 911**
Liabilities				
Current liabilities				
Accounts payable	30 659	32 813	(2 642)	60 830
Employee benefits	5 058	913	505	6 476
Other liabilities	5 661	288	–	5 949
Non-current liabilities				
Employee benefits	31 993	5 776	3 195	40 964
Total liabilities	**73 371**	**39 790**	**1 058**	**114 219**
Net assets/equity				
Accumulated surplus/(deficit)	40 894	220 708	850	262 452
Current year surplus/(deficit)	(1 176)	(14 378)	(192)	(15 746)
Operational reserves	21 000	–	–	21 000
Field accommodation reserve	1 000	–	–	1 000
Actuarial gains/(losses)	(4 411)	–	–	(4 411)
IPSAS reserve	802	12 253	(858)	12 197
Refunds to donors	–	(800)	–	(800)
Total net assets/equity	**58 109**	**217 783**	**(200)**	**275 692**

Total net assets/equity in the above statement represent:

(a) Regular resources: the cash required to fund operations for the first few months of the new financial year while UN-Women awaits new voluntary contributions from donor Governments;

(b) Other resources: the unspent budgets for earmarked projects and programmes which will be expensed in future periods in accordance with donor agreements.

Financial performance by segment for the year ended 31 December 2012

(Thousands of United States dollars)

	Regular resources	*Other resources*	*Assessed resources*	*Elimination*	*Total*
Revenue					
Contributions	114 086	93 676	7 235	–	214 997
Investment income	981	1 177	–	–	2 158
Other revenue	2 688	6 276	–	(5 978)	2 986
Total revenue	**117 755**	**101 129**	**7 235**	**(5 978)**	**220 141**
Expenses					
Employee benefits	46 439	17 430	7 132	–	71 001
Contractual services	24 882	46 210	34	–	71 126
Grants and other transfers	3 007	8 210	–	–	11 217
Supplies and maintenance	3 963	2 860	1	–	6 824
Operating costs	36 024	37 042	259	(5 978)	67 347
Depreciation	853	610	–	–	1 463
Finance costs	68	39	–	–	107
Other expenses	3 695	3 106	1	–	6 802
Total expenses	**118 931**	**115 507**	**7 427**	**(5 978)**	**235 887**
Surplus/(deficit) for the period	**(1 176)**	**(14 378)**	**(192)**	**–**	**(15 746)**

The elimination items represent the indirect costs charged by UN-Women in relation to the management of other resources and are based on the rate of recovery of 7 per cent established by the Executive Board of UNDP and of the United Nations Population Fund (UNFPA) in its decision 2008/3, which was adopted by UN-Women. These indirect costs charged have been recognized during the year as an increase in support cost income, and at year-end those amounts comprised the elimination items.

Note 6
Cash and cash equivalents

(Thousands of United States dollars)

	Amount at 31 December 2012
Cash in bank accounts	1 236
Petty cash	19
Money market funds, term deposits and commercial papers	102 852
Total	**104 107**

Cash and cash equivalents are comprised of balances held by field offices, money market account balances, term deposits and commercial paper with terms of less than three months. Cash required for immediate disbursement is maintained in cash and bank accounts. Money market and deposit accounts are available at short

notice. Cash and cash equivalents relates to both regular resources and other resources.

Note 7
Investments

(Thousands of United States dollars)

	Amount held at 31 December 2012
Short-term investments	
Bonds and notes	99 462
Commercial paper	24 971
Subtotal	**124 433**
Long-term investments	
Bonds and notes	93 719
Subtotal	**93 719**
Total	**218 152**

UN-Women manages its portfolio of investments as held-to-maturity financial assets. As at 31 December 2012, the average portfolio rating was AA+ and the longest maturity was less than two and a half years. UN-Women is reporting amortized cost of the investments as an approximation of fair value. The average portfolio yield on investments from 1 January to 31 December 2012 was 0.70 per cent. Financial risks are detailed in note 22.

UN-Women investments include funding for after-service health insurance and repatriation benefits in the amount of $24,738,000 in accordance with note 13, and operational reserve in the amount of $21,000,000 in accordance with note 16. Investments relates to both regular resources and other resources.

Note 8
Accounts receivable

(Thousands of United States dollars)

	Amount at 31 December 2012
Contributions receivable	12 010
Less: Allowance for impairment of receivables	(33)
Total	**11 977**

Contributions receivable represent uncollected revenue committed to UN-Women by donors. The allowance for impairment of receivables is calculated based on an aged analysis of the outstanding balance.

Note 9
Advances

(Thousands of United States dollars)

		Amount at 31 December 2012
Total advances provided to partners		
Advances provided to United Nations agencies		4 693
Advances provided to other partners		41 792
Shown by fund type:		
Regular resources	8 579	
Other resources (earmarked)		
Cost-sharing	12 934	
Trust fund to end violence against women	10 441	
Fund for Gender Equality	9 838	
Less: Allowance for impairment of advances to partners		(500)
Subtotal		**45 985**
Advances to staff		711
Total		**46 696**

Advances from non-exchange transactions relate to transfers made to partners in connection with programme execution, and to staff. Such advances are recognized as an asset and are stated at historical cost less an allowance for impairment. Advances are reduced and expenses are recognized when certified expense reports are received from partners. As at 31 December 2012, approximately 70 per cent of the total advances provided to partners were aged less than six months.

Advances to staff include salary and rental advances and prepaid education grant, which are generally settled within a 12-month period.

Note 10
Other assets

(Thousands of United States dollars)

	Amount at 31 December 2012
Interest receivable and accrued interest	1 370
Prepaid expenses	281
Receivable from United Nations agencies	
United Nations Capital Development Fund	3
United Nations Fund for Population Advancement	186
Miscellaneous account receivable	1 656
Total other current assets	**3 496**

Miscellaneous accounts receivable includes value added tax, sales tax, security deposit on rental premises and rent reimbursement from the United Nations.

Note 11
Property, plant and equipment

(Thousands of United States dollars)

	Building	*Communication and information technology equipment*	*Furniture and fixtures*	*Vehicles*	*Heavy machinary/ equipment*	*Security equipment*	*Leasehold improvements*	*Total*
At 1 January 2012								
Cost	198	3 631	252	3 046	279	104	–	7 510
Accumulated depreciation	(25)	(1 884)	(71)	(1 506)	(130)	(56)	–	(3 672)
Net book value	**173**	**1 747**	**181**	**1 540**	**149**	**48**	**–**	**3 838**
Movements year to 31 December 2012								
Additions	–	1 527	411	1 077	154	78	88	3 335
Cost adjustments	–	3	3	(132)	(1)	(5)	–	(132)
Transfers	–	1	–	–	–	–	–	1
Retirements	–	(828)	(35)	(179)	(29)	(8)	–	(1 079)
Retirements — accumulated depreciation	–	772	28	172	9	2	–	983
Depreciation	(20)	(804)	(75)	(473)	(63)	(20)	(8)	(1 463)
Closing net book value at 31 December 2012	**153**	**2 418**	**513**	**2 005**	**219**	**95**	**80**	**5 483**
At 31 December 2012								
Cost	198	4 334	631	3 812	403	169	88	9 635
Accumulated depreciation	(45)	(1 916)	(118)	(1 807)	(184)	(74)	(8)	(4 152)
Net book value	**153**	**2 418**	**513**	**2 005**	**219**	**95**	**80**	**5 483**

The opening balances for property, plant and equipment reflect the initial recognition for the asset classes listed. In accordance with IPSAS, at the time of the initial adoption of accrual accounting, property, plant and equipment are recognized at cost less accumulated depreciation as at 1 January 2012.

Property, plant and equipment are capitalized if cost is greater or equal to the threshold limit set at $1,000 per unit. The assets are depreciated over their estimated useful life using the straight-line method. Assets are reviewed annually to determine if there is any impairment in their value. As at 31 December 2012, UN-Women held fully depreciated property, plant and equipment which was still in use with a cost value of $1,045,000.

Note 12
Accounts payable

(Thousands of United States dollars)

	Amount at 31 December 2012
Payables to third parties	8 533
Payables to United Nations agencies	
United Nations Development Programme	50 941
United Nations Office for Project Services	75
Accruals	1 281
Total	**60 830**

Payables to third parties are related to amounts due for goods and services for which invoices have been received. Payables to United Nations agencies represent expenditures incurred on behalf of UN-Women which are settled in the following year.

Accruals represent estimates of the value of goods or services received for which invoices have not yet been received and for which the liability has occurred and can be reasonably estimated.

Note 13
Employee benefits

(Thousands of United States dollars)

	Amount at 31 December 2012
Current employee benefits	
Accrued annual leave	4 941
Accrued home leave	809
After-service health insurance	89
Repatriation benefits	504
Other employee benefits	133
Subtotal	**6 476**
Non-current employee benefits	
After-service health insurance	35 231
Repatriation benefits	5 733
Subtotal	**40 964**
Total	**47 440**

(a) Current employee benefits

The current portion of employee benefits includes annual leave and home leave calculated in accordance with Staff Rules and Staff Regulations of the United Nations and other employee benefits representing accruals for learning and security

costs. Also included are the current portions of accrued after-service health insurance and repatriation benefits as determined by actuarial valuation.

(b) Non-current employee benefits

The non-current portion of employee benefits includes the non-current portions of after-service health insurance and repatriation benefits as determined by actuarial valuation.

Actuarial valuations

The actuarial valuation for after-service health insurance and repatriation benefits was prepared for the purpose of providing results for financial disclosure and reporting as at 31 December 2012 in accordance with International Public Sector Accounting Standard 25 (Employee benefits).

After-service health insurance

UN-Women provides end-of-service medical benefits for its eligible former staff members and their dependants in the form of insurance premiums for the medical and accident insurance plan. Eligible former staff members must be 55 years of age or older and have five or more years of service for staff hired before 1 July 2007, or 10 or more years of service for staff hired on or after 1 July 2007, of contributory health insurance coverage prior to retirement.

The non-current portion of after-service health insurance of $35,231,000 includes an obligation for active staff (not yet fully eligible) amounting to $22,937,000, which represents active employees who are not yet eligible as of the valuation date whose number is determined on the assumption that some employees will leave UN-Women prior to meeting the age and service requirements.

The plan was funded in the amount of $24,240,000 as at 31 December 2012 and a funding plan for providing 5 per cent of annual salary costs for contracted staff was initiated on 1 January 2012. The assets held to support the plan are included in the pool of UN-Women investments (see note 7).

The present value of the defined benefit obligations for post-employment medical insurance is determined using the projected unit credit method including discounting the estimated future cash outflows.

Repatriation benefits

UN-Women provides end-of-service repatriation benefits (grant and travel and shipment of personal effects) for its eligible staff members and their dependants upon separation. Eligible staff are those holding international appointments who have been separated from active service after qualifying service of one year or longer, who resided at the last duty station outside their country of nationality and have not been summarily dismissed or separated from service on grounds of abandonment of post.

The non-current portion of repatriation benefits of $5,733,000 includes an obligation for active staff, not yet fully eligible amounting to $4,884,000, which corresponds to active employees who are not yet eligible as at the valuation date and is determined on the assumption that some employees will leave UN-Women prior to meeting the age and service requirements.

The plan was funded in the amount of $498,000 as at 31 December 2012 and a funding plan for providing 2 per cent of annual salary costs for contracted staff was initiated on 1 January 2012. The assets held to support the plan are included in the pool of UN-Women investments (see note 7).

The movement in the present value of the defined benefit in accordance with the actuarial valuation was as follows.

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*
Restated net defined benefit obligation at 1 January 2012	**27 361**	**5 640**
Increase of the obligation		
Service cost	2 658	479
Interest on obligation	1 230	244
Actuarial loss	4 107	304
Decrease of the obligation		
Benefit payments	(36)	(430)
Net recognized liability at 31 December 2012	**35 320**	**6 237**

Actuarial loss for the year ended 31 December 2012 totalled $4,411,000 (see note 15).

The annual expense amounts recognized in the statement of financial performance are as follows.

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*
Service cost	2 658	479
Interest on obligation	1 230	244
Total expenses recognized	**3 888**	**723**

Actuarial assumptions

The discount rate was determined by first discounting the expected end-of-service benefit payments, attributable to past service as of the valuation dates, for each future year using the spot rates from the full Citigroup discount curve. A single equivalent discount rate was then determined that resulted in the same past service obligation as that determined using the full spot curve. For the 31 December 2012 valuation, the single equivalent discount rate is 4.07 per cent and the United Nations agencies selected a 4.0 per cent discount rate, based on rounding to the nearest 25 basis points. The assumptions made by the agencies were made collectively by all agencies which had contracted the actuary.

The long-term rate of inflation in the United States of America based on the consumer price index for urban areas over the last 10 to 30 years was centred at about 2.5 per cent, while the rate for euro areas over five years was 2.2 per cent. Based on this information, the United Nations agencies determined that the 2.5 per cent inflation assumption continued to be appropriate as a proxy for the long-term expectations extending 15 to 20 years from 31 December 2012.

If the assumptions described above were to change, according to the actuarial report, it would affect the measurement of defined benefit obligations and current service and interest costs as shown in the table below.

(Thousands of United States dollars)

	Change	*After-service health insurance*	*Repatriation benefits*
Impact of change in assumptions		**27 361**	**5 640**
Discount rate sensitivity to end-of-year liability			
Increase of discount rate by	+1%	(7 601)	(591)
As a percentage of end-of-year liability		-22%	-9%
Decrease of discount rate by	-1%	10 458	702
As a percentage of end-of-year liability		30%	11%
Effect of change in assumed health-care cost trend rates			
Effect on year-end accumulated post-employment benefit obligation			
Increase of health-care cost trend rate by	+1%	10 158	Not applicable
Decrease of health-care cost trend rate by	-1%	(7 563)	Not applicable
Effect on combined service and interest cost components on net			
Increase of health-care cost trend rate by	+1%	1 289	Not applicable
Decrease of health-care cost trend rate by	-1%	(933)	Not applicable

UN-Women's best estimate of contributions expected to be paid for the next 12 months for after-service health insurance is $4,632,000, and for repatriation benefits $723,000.

United Nations Joint Staff Pension Fund

The Regulations of the Pension Fund state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

The financial obligation of UN-Women to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations), together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the General Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an

assessment of the actuarial sufficiency of the Pension Fund as at the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

The latest actuarial valuation was performed as of 31 December 2011. The valuation revealed an actuarial deficit of 1.87 per cent (0.38 per cent in the 2009 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as at 31 December 2011 was 25.57 per cent of pensionable remuneration, compared to the actual contribution rate of 23.7 per cent. The actuarial deficit was primarily attributable to the lower than expected investment experience in recent years.

At 31 December 2011, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 130 per cent (140 per cent in the 2009 valuation). The funded ratio was 86 per cent (91 per cent in the 2009 valuation) when the current system of pension adjustments was taken into account.

After assessing the actuarial sufficiency of the Fund, the consulting actuary concluded that there was no requirement, as of 31 December 2011, for deficiency payments under article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of the present report, the General Assembly has not invoked the provision of article 26. The pensionable remuneration will be reviewed at the time of the next actuarial valuation as at 31 December 2013.

In July 2012, the Pension Board noted in its report of the fifty-ninth session to the General Assembly that an increase in the normal age of retirement for new participants of the Fund to 65 is expected to significantly reduce the deficit and would potentially cover half of the current deficit of 1.87 per cent. In December 2012, the Assembly authorized the Pension Board to increase the normal retirement age to 65 for new participants of the Fund, with effect not later than from 1 January 2014, unless the General Assembly has not decided on a corresponding increase in the mandatory age of separation.

During 2012, UN-Women's contributions paid to the Pension Fund amounted to $8,583,000 (2011, $6,884,000).

The United Nations Board of Auditors carries out an audit of the Pension Fund and reports to the Pension Board on the audit every year. The Fund publishes quarterly reports on its investments, which can be viewed on its website (www.unjspf.org).

Note 14
Other liabilities

(Thousands of United States dollars)

	Amount at 31 December 2012
Deferred income	2 894
Other payables	3 055
Other current liabilities	**5 949**

Deferred income represents funds received in advance for future years from multi-year donor agreements which are apportioned by calendar year over the period of the agreement and recognized when conditions are met.

Other payables represent reimbursable services rendered by the United Nations and United Nations agencies, and a death benefit payable to a beneficiary.

Note 15
Accumulated surplus or deficit

The movement in the accumulated surplus or deficit during the year is shown below.

(Thousands of United States dollars)

	Amount
Accumulated surplus/(deficit) at 1 January 2012	**262 452**
Current-year surplus/(deficit)	(15 746)
IPSAS reserves	12 197
Refunds to donors	(800)
Actuarial loss	(4 411)
Accumulated surplus/(deficit) at 31 December 2012	**253 692**

(a) IPSAS reserve adjustments during 2012

During the year there were adjustments to the IPSAS reserves as at 1 January 2012 in order to recognize (a) irrecoverable amounts previously recorded as receivables and (b) property, plant and equipment identified as on hand during the May 2012 physical count, with an in-service date of earlier than 1 January 2012 which had previously not been accounted for.

(Thousands of United States dollars)

	2012
IPSAS reserve at 1 January 2012	**12 088**
Increase/(decrease) during 2012	
Accounts receivable	(329)
Property, plant and equipment	438
IPSAS reserve at 31 December 2012	**12 197**

(b) Refunds to donors

Refunds to donors represent funds returned to donors in accordance with agreements after the completion of activities for projects and programmes.

(c) Actuarial gains or losses

Actuarial gains or losses relating to after-service health insurance and repatriation benefit obligations in the amount of $4,411,000 are accounted for using the "reserve recognition" approach and are recognized through net assets in the statement of financial position and the statement of changes in net assets in the year in which they occur (see note 13).

Note 16
Reserves

The movement in the reserves during the year is shown below.

(Thousands of United States dollars)

		Amount
Reserves at 1 January 2012		**21 000**
Represented by		
Operational reserve	21 000	
Movements during the year		
Field accommodation reserve	1 000	
Reserves at 31 December 2012		**22 000**
Represented by		
Operational reserve	21 000	
Field accommodation reserve	1 000	

(a) Operational reserve

UN-Women maintains an operational reserve of $21,000,000, the purpose of which is to guarantee the financial viability and integrity of the entity. The reserve is fully funded and held in irrevocable and promptly available liquid assets which are included in the pool of UN-Women investments. The elements to be compensated for and covered by it are limited to downward fluctuations or shortfalls in resources; uneven cash flows; increases in actual costs as compared to planning estimates or fluctuations in delivery; and other contingencies that result in a loss of resources for which UN-Women has made commitments for programming.

(b) Field accommodation reserve

A reserve for field office accommodation of $1,000,000 was established in accordance with decision 2012/8 of the Executive Board dated 30 November 2012. With the establishment of regional offices and the ongoing potential for increased participation in United Nations common premises, UN-Women may incur additional costs to finance its share. UN-Women can make drawdowns from the reserve which will be replenished from the accumulated surplus on an annual basis.

Note 17
Voluntary contributions for the year ended 31 December 2012

(Thousands of United States dollars)

	Amount
Contributions	207 148
Contributions in kind (rent on office premises)	614
Total	**207 762**

In-kind services relating to the assignment of Junior Professional Officers represent estimated cost savings of $3,087,000 for the financial year.

Note 18
Assessed contributions for the year ended 31 December 2012

(Thousands of United States dollars)

	Amount
Assessed contributions	7 235
Total	**7 235**

Assessed contributions are issued as an annual allotment from the United Nations regular budget.

Note 19
Investment income for the year ended 31 December 2012

(Thousands of United States dollars)

	Amount
Interest income	6 423
Amortization on investments	(4 265)
Total	**2 158**

Amortization of investments relates to the net bond income balance from amortizing of premiums (debit) and discounts (credit). These premiums and discounts are part of the initial purchase price of bonds and, in observance of accrual accounting principles, are amortized to maturity or call. A debit has resulted because the average bond portfolio during 2012 comprised overwhelmingly premium bonds.

Note 20
Other revenue for the year ended 31 December 2012

(Thousands of United States dollars)

	Amount
Currency exchange gains	2 328
Miscellaneous income adjustments relating to prior and current years	658
Fees and support services	5 978
Less elimination	(5 978)
Total other revenue	**2 986**

Miscellaneous income adjustments resulted from general ledger reconciliation for the financial periods from 2004 to 2011 largely relating to legacy items from the former United Nations Development Fund for Women (UNIFEM).

The elimination items represent the indirect costs charged by UN-Women in relation to the management of other resources and are based on the rate of recovery of 7 per cent established by the UNDP/UNFPA Executive Board in its decision 2008/3 (see note 5).

Note 21
Expenses for the year ended 31 December 2012

(Thousands of United States dollars)

	Amount
Employee benefits	
Staff costs	70 953
Related agency costs	48
Subtotal	**71 001**
Contractual services	
Contract services with individuals	47 921
Contract services with companies	22 561
United Nations Volunteers costs	644
Subtotal	**71 126**
Grants and other transfers	
Grants	11 033
Transfers	184
Subtotal	**11 217**
Supplies and maintenance	
Maintenance and non-capitalized property	4 552
Maintenance and non-capitalized information technology and communications equipment	780

		Amount
Maintenance and non-capitalized software and licences		1 098
Consumables		394
Subtotal		**6 824**
Operating costs		
Travel costs		20 654
Communication costs		10 291
Learning and recruitment costs		14 766
Support services paid to United Nations agencies		7 057
Insurance/warranties		193
Rent, leases, utilities		12 947
Professional services		950
Freight costs		73
Other operating costs		186
General management costs	6 208	230
Less elimination	(5 978)	
Subtotal		**67 347**
Depreciation		
Depreciation		1 463
Subtotal		**1 463**
Finance costs		
Bank charges		107
Subtotal		**107**
Other expenses		
Impairment and prior and current period write-offs		755
(Gains)/losses on fixed assets		84
Currency exchange losses		1 688
Stationery and other project expenses		4 275
Subtotal		**6 802**
Total		**235 887**

Note 22
Financial risks

The investment activities of UN-Women are carried out by UNDP under a service-level agreement. Under the terms of the agreement, UNDP applies its investment guidelines and governance framework for the benefit of UN-Women. Investments are registered in the entity's name, with marketable securities held by a custodian appointed by UNDP.

The principal objectives of the investment guidelines (listed in order of importance) are:

(i) Safety: preservation of capital, which is assured by investing in high-quality fixed-income securities emphasizing the creditworthiness of the issuers;

(ii) Liquidity: flexibility to meet cash requirements, which is assured by investment in highly marketable fixed-income securities and by structuring maturities to align with liquidity requirements;

(iii) Revenue: maximization of investment revenue within the foregoing safety and liquidity parameters.

The UNDP Investment Committee, comprising senior managers, meets quarterly to review investment portfolio performance and ensure investment decisions have complied with the established investment guidelines.

UN-Women is susceptible to a variety of financial risks arising from financial instruments to which the entity is exposed, including:

(i) Credit risk: the possibility that third parties may not pay amounts when due;

(ii) Liquidity risk: the possibility that UN-Women might not have adequate funds to meet its current obligations;

(iii) Market risk: the possibility that UN-Women might incur significant financial losses owing to unfavourable movements in foreign currency exchange rates, interest rates and prices of investment securities.

(a) Credit risk

(Thousands of United States dollars)

	Credit ratings	*Amount at 31 December 2012*
Money market instruments	AAA	24 971
Bonds	AA+ to AAA	193 181
Total investments		**218 512**

Credit risk is the risk of financial loss to UN-Women if a donor, customer or other counterparty to a financial instrument fails to meet its contractual obligations. Credit risk can arise from cash and cash equivalents, investments, receivables from contributions, advances and other receivables.

In accordance with the investment guidelines and policy applicable to UN-Women, the overall average credit rating is AA on the investment portfolio, with a minimum rating of A.

UN-Women holds bank accounts denominated in five currencies. For other currencies, UN-Women uses the bank accounts of UNDP and relies upon the Programme's risk management processes.

For other resources, UN-Women's financial regulations and rules require that expenditure be incurred only after receipt of funds from the donor, thereby

considerably reducing the financial risk to the entity with regard to contributions receivable.

(b) Liquidity risk

(Thousands of United States dollars)

	Amount at 31 December 2012	*Percentage of total*
Cash and cash equivalents (net)		
Cash and petty cash balances	1 255	0.4
Money market, term deposits, commercial paper	102 852	31.9
Subtotal	**104 107**	**32.3**
Investments		
Short-term investments	124 433	38.6
Long-term investments	93 719	29.1
Subtotal	**218 152**	**67.7**
Total	**322 259**	**100.0**

Liquidity risk is the risk that UN-Women will encounter difficulty in meeting its obligations associated with accounts payable, other liabilities and promised transfers of cash to programmes. UN-Women does not have significant liquidity risks as its operations and investments are managed in accordance with its budget and with due consideration of cash requirements for operating purposes. All investments are held in highly liquid securities with an average maturity of six months.

(c) Market risk

Foreign exchange risk

UN-Women receives voluntary contributions and incurs expenses in currencies other than its functional currency, the United States dollar. Therefore, the entity is exposed to risk arising from fluctuations in exchange rates. UN-Women does not use any hedging or derivative contracts to protect itself from such risks. However, 99.62 per cent of its investments and cash and cash equivalents at 31 December 2012 were held in United States dollars.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. UN-Women is exposed to interest rate risk on its fixed-rate investments. Interest rate risk is limited by the fact that investments are held to maturity.

Note 23
Budget reconciliation

The statement of comparison of budget and actual amounts (statement V) is prepared in the same format as the original approved institutional budget, with the

inclusion of assessed contributions. As the financial statements are prepared in accordance with IPSAS and the budget is prepared on the modified cash basis, the reported financial results (actual) are adjusted to provide for a comparison to the budget as presented in the statement of comparison of budget and actual amounts. The main changes between the IPSAS financial results and the results on a budget basis relate to differences in the treatment of cost of assets and treatment of cash advances to partners and staff members.

In interpreting variances against budget it should be noted that the approved budgets are prepared and presented on a biennial basis, with those amounts being broken down into annual amounts in the statement.

(a) Assessed contributions — regular budget

There is no difference between the original and final budgets, since the amount is a fixed appropriation from the United Nations programme budget. Since the posts and expenses are tightly controlled within the agreed parameters of the programme budget, the actual costs show minimal variance from the budget.

(b) Voluntary contributions — programme

There are relatively small decreases between opening and closing budgets within the programme and development effectiveness categories of development activities. These movements are consistent with ongoing review of operations and budget revisions by the budget owners.

Total programme variances are $85,597,000, distributed as follows.

Programme expenditures from regular resources are $17,029,000 lower than the budget. The budgets are in line with authorized spending limits based on expected funding receipts and available resources. The budgets are aligned to the extent possible within these spending limits and the annual workplans. The difference between the planned and actual expenditures is explained by the fact that the actual delivery rate for programmes averaged 70 per cent, and since actual receipts were much lower in 2012 than originally planned, actual expenditure against these programmes is lower than the original budgets.

Programme expenditures from other resources are $68,568,000 lower than the budget. This relates to specific projects, with the budgets being based on targeted revenue figures expected over the period. Reasons for shortfalls include delivery rates that averaged 55 per cent, with one region attaining a rate of 81 per cent, and the fact that a number of programmes are budgeted over a multi-year period but which only show expenses for the current year, in particular the global trust funds. This reduces spending against total budget and hence increases the variance.

(c) Voluntary contributions — institutional budget (development effectiveness, United Nations development coordination and management activities)

The total shortfall against the 2012 budget of the institutional budget is $16,207,000, composed of development effectiveness, $3,713,000; United Nations development coordination, $2,702,000; management activities, $8,940,000; and change management, $852,000. The total approved institutional budget for the biennium 2012-2013 was $140,800,000. Owing to ongoing review of the entity's structure and the implementation of the regional architecture, initial costs projected

to be incurred in 2012 were delayed. The budget for the biennium is, however, expected to be fully utilized by the end of 2013.

(d) Basis adjustments

The budget is prepared on the modified cash basis and the financial statements are prepared on a full accrual basis in compliance with IPSAS requirements. In order to reconcile the budgetary result to the cash flow statement, the non-cash elements are removed as basis differences. The principal adjustments affecting the reconciliation between the budget and the statement of financial performance are as follows:

- Capital expenditures are capitalized and depreciated over useful life under accrual accounting (generally recorded as current-year expenses in the budget)
- Under accrual accounting, employee benefit liabilities are reported in the statement of financial position, and movements in liabilities affect the statement of financial performance
- Unliquidated obligations are included in budget reporting but are not recognized under accrual accounting.

(e) Timing differences

As the aggregate biennial budget has been annualized to show anticipated 2012 results, the budget and the financial statements both represent the year to 31 December 2012. As such there are no timing differences in the reconciliation.

(f) Presentation differences

Presentation differences are those differences in the format and classification schemes used in the statement of cash flow and the statement of comparison of budget and actual amounts. As such the presentation differences in the reconciliation relate to revenue.

Reconciliation: budgetary result with net cash flow for the year ended 31 December 2012

(Thousands of United States dollars)

	Operating	*Investing*	*Total*
Actual amount on comparable basis as presented in the budget and actual comparative statement	(265 223)	–	(265 223)
Basis differences	39 161	89 952	129 113
Presentation differences	220 141	–	220 141
Actual amount in statement of cash flow	**(5 921)**	**89 952**	**84 031**

Note 24
Related party transactions

(a) Governing bodies

UN-Women is governed by an Executive Board on the basis of paragraph 57 (b) of General Assembly resolution 64/289 which stipulates that "the General Assembly, the Economic and Social Council and the Executive Board of the Entity shall

constitute the multi-tiered intergovernmental governance structure for the operational activities and shall provide operational policy guidance to the Entity". The Executive Board comprises 41 members (elected from five regional groups and one contributing group), who do not receive any remuneration from UN-Women.

The Board also engages with the executive boards of other United Nations operational entities in an effort to harmonize approaches to operational activities. These engagements also provide opportunities for sharing experiences and coordinating programme work on gender equality and gender mainstreaming across the United Nations system. The work of the Executive Board is guided by its rules of procedure.

(b) Key management personnel

(Thousands of United States dollars)

Number of individuals	*Compensation and post adjustment*	*Entitlements*	*Pension and health plans*	*Total remuneration 2012*	*Outstanding advances*	*Outstanding loans*
9	1 755	46	699	2 500	58	0

Key management personnel are the Executive Director, two Assistant Secretaries-General and six senior Directors, who have the authority for planning, directing and controlling the activities of the entity and executing its mandate.

The aggregate remuneration paid to key management personnel includes net salaries, post adjustment, entitlements such as allowances, grants and subsidies, and employer pension and health insurance contributions. Advances are those made against entitlements in accordance with staff rules and regulations. As at 31 December 2012, the value of after-service health insurance and repatriation benefits for key management personnel included in employee benefit liabilities stood at $2,634,000 as determined by actuarial valuation (see note 13).

Note 25
Commitments and contingencies

(a) Lease commitments

(Thousands of United States dollars)

	Amount at 31 December 2012
Obligations for property leases	
Within 12 months	4 528
1-5 years	16 272
Beyond 5 years	17 607
Total property lease obligations	**38 407**

The typical contractual leases of UN-Women are between 1 to 10 years, but some of the leases permit early termination within 30, 60, or 90 days. The lease for headquarters at the Daily News Building allows for termination seven years after

commencement where UN-Women has no other office within the United States and makes a cancellation payment of $3,153,000. Leases often include provisions that allow for multiple renewals and are at rates considerably lower than the existing market rates. The aggregate difference between the leases at contract rates and their respective market rates is recognized as a contribution and in-kind revenue.

On 14 February 2013, a lease modification and additional space agreement was signed for the fourth floor of the Daily News Building in New York. These lease commitments have been included in the amount shown above.

(b) Legal or contingent liabilities

There are no contingent liabilities arising from legal actions and claims during 2012 that are likely to result in a significant liability to UN-Women.

Note 26
Events after the reporting date

The reporting date for UN-Women is 31 December 2012. On 30 April 2013, the date on which the Acting Head of UN-Women authorized the issue of the financial statements for transmittal, there had been no material events, favourable or unfavourable, incurred between the balance sheet date and the date of authorization that would have affected the statements.

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